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Checklist supplement and illustrative financial statements : Investment companies, September 2009 edition

American Institute of Certified Public Accountants

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



CHECKLIST SUPPLEMENT & ILLUSTRATIVE FINANCIAL STATEMENTS

Investment Companies

To be used in conjunction with *Checklists and Illustrative
Financial Statements for Corporations*

SEPTEMBER 2009



AICPA®

Checklist Supplement and Illustrative Financial Statements for Investment Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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TABLE OF CONTENTS

	PAGE
Checklist Supplement and Illustrative Financial Statements for Investment Companies	1
Introduction	1
General	2
Instructions	4
Recognition	5
Financial Statements and Notes Checklist	7
I. General	8
II. Schedule of Investments	10
III. Statement of Assets and Liabilities	15
IV. Statement of Operations	24
V. Statement of Changes in Net Assets	32
VI. Statement of Cash Flows	34
VII. Financial Highlights	35
VIII. Fully Benefit-Responsive Investment Contract Disclosures	42
IX. Other Disclosure Requirements	44
X. Interim Financial Statements	47
XI. Funds With Multiple Classes of Shares or Master-Feeder Structures	48
Auditor's Reports and Illustrative Financial Statements	53
Illustrative Financial Statements for a Registered Investment Company	56
Illustrative Financial Statements for Management Investment Companies That Have Multiple Classes of Shares or Master Feeder Structures	78
Illustrative Financial Statements for a Unit Investment Trust	97
Illustrative Financial Statements for Variable Annuity Separate Accounts Registered as Unit Investment Trusts	103

FSP Section 12,000

Checklist Supplement and Illustrative Financial Statements for Investment Companies

Introduction

.01 Investment companies generally are entities that pool shareholders' funds to provide the shareholders with professional investment management. This term does not match the legal definition of an investment company in the federal securities laws. Typically, an investment company sells its capital shares to the public and invests the proceeds, mostly in securities, to achieve its investment objectives, and distributes to its shareholders the net income earned on its investments and net gains realized on the sale of its investments.

.02 The industry is subject to extensive governmental regulation by the Securities and Exchange Commission (SEC). The industry is also the subject of special tax treatment. The investment company industry usually is categorized by the type of security or the investment objective.

.03 There are many types of investment companies: management investment companies, unit investment trusts, common (collective) trust funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies are further divided into many subclassifications, the most predominant of which is open-end funds, also called mutual funds. There are also closed-end funds and Small Business Investment Companies (SBICs), among others.

.04 The checklist has been designed primarily for auditors of mutual funds and closed-end investment companies that register with the SEC under the Investment Company Act of 1940. However, the checklist would generally apply to all types of investment companies. Certain disclosures that would apply to investment companies other than mutual funds and closed-end investment companies are also presented.

.05 Investment companies covered by the checklist are required to report their investment assets at fair value, as stated by Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 946-10-15-2, and have the following attributes:

- a. *Investment activity.* The investment company's primary business activity involves investing its assets, usually in the securities of other entities not under common management, for current income, appreciation, or both.
- b. *Unit ownership.* Ownership in the investment company is represented by units of investments, such as shares of stock or partnership interests, to which proportionate shares of net assets can be attributed.
- c. *Pooling-of-funds.* The funds of the investment company's owners are pooled to avail owners of professional investment management.
- d. *Reporting entity.* The investment company is the primary reporting entity.

.06 The major accounting and auditing literature and applicable regulations for investment companies include the following:

- a. Topic 946, *Financial Services—Investment Companies*, in FASB ASC
- b. AICPA Audit and Accounting Guide *Investment Companies*
- c. AICPA Statement of Position (SOP) 89-2, *Reports on Audited Financial Statements of Investment Companies* (AICPA, *Technical Practice Aids*, AUD sec. 14,100)
- d. Articles 6 and 12 of Regulation S-X of the SEC
- e. The Securities Act of 1933
- f. The Investment Company Act of 1940

General

.07 This publication includes the following information:

- Financial Statements and Notes Checklist (FSP section 12,100)—For use by preparers of financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures
- Illustrative Financial Statements, Notes, and Auditor's Report (FSP section 12,200)

.08 This checklist is to be used in conjunction with the *Checklists and Illustrative Financial Statements: Corporations* (product no. 0089309 [paperback] or WCP-CL [online]).

.09 This checklist is intended to be used in connection with engagements of nonpublic companies and is not intended to be used in connection with audits of public entities that are required to be audited under standards established by the Public Company Accounting Oversight Board.

.10 The form and content of the investment companies' financial statements required in SEC filings are governed by Regulation S-X, Articles 6 and 12, which deal specifically with investment companies (SBICs are covered in Article 5).

.11 The checklist and illustrative financial statements have been developed by the AICPA Accounting and Auditing Publications Staff to serve as nonauthoritative technical practice aids for use by preparers of financial statements and by practitioners who audit them. Readers should be aware of the following:

- The checklist includes disclosures commonly encountered in investment company financial statements; it does not include all disclosures required by generally accepted accounting principles in the United States (U.S. GAAP) or by SEC regulation. Further, the illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical investment company; they are not intended to illustrate all disclosures required by U.S. GAAP or by SEC regulation, nor do they illustrate all of the disclosures covered in the checklist.
- The checklist and illustrative financial statements are tools and in no way represent official positions or pronouncements of the AICPA.

.12 Note that the *Checklist and Illustrative Financial Statements: Corporations* contains auditor's and accountant's report checklists which address those requirements most likely to be encountered when reporting on financial statements of a commercial corporation prepared in conformity with U.S. GAAP. They do not include reporting requirements relating to other matters such as internal control or agreed-upon procedures.

.13 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive U.S. GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with U.S. GAAP are not included in the checklist.

.14 The checklist and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of U.S. GAAP, generally accepted auditing standards, and other relevant technical guidance.

.15 In some cases, this checklist uses the term *Common Practice* or provides additional Practice Tips to describe a disclosure item. In such cases, although there is no authoritative guidance to support such a disclosure for nonpublic companies, it has become a common practice that such disclosures are made. Companies should evaluate whether such items warrant disclosure in their financial statements.

.16 Relevant financial statement reporting and disclosure guidance issued through September 30, 2009 has been considered in the development of this edition of the checklist. This includes relevant guidance issued up to and including the following:

- FASB Accounting Standards Updates issued through September 30, 2009
- Statement on Auditing Standards No. 116, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1, AU sec. 722)
- Interpretation No. 19, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .93–.97)
- SOP 09-1, *Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data* (AICPA, *Technical Practice Aids*, AUD sec. 14,440).

.17 On June 11, 2007, SOP 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (AICPA, *Technical Practice Aids*, ACC sec. 10,930), was issued. The intent of SOP 07-1 was to provide guidance for determining whether an entity was within the scope of investment company accounting guidance. In response to the SOP, FASB issued FASB Staff Position (FSP) SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*, which delayed the effective date of SOP 07-1 indefinitely. FSP SOP 07-1-1 amends paragraph 56 of SOP 07-1 to (1) delay the effective date of the SOP and (2) prohibit adoption of the SOP for an entity that has not early adopted the SOP before issuance of the final FSP, which occurred on February 14, 2008. An entity that early adopted SOP 07-1 before issuance of the final FSP would be permitted, but not required, to continue to apply the provisions of the SOP. An entity that did not early adopt SOP 07-1 would not be permitted to adopt the SOP. The effective date of FSP SOP 07-1-1 is December 15, 2007.

Given the possibility of early adopters continuing to follow the guidance provided in SOP 07-1, SOP 07-1 was included in FASB ASC 946, but has been labeled as indefinitely delayed "Pending Content." FASB ASC 946-10-65-1 explains the circumstances and all indefinitely delayed "Pending Content" from SOP 07-1 is linked to this paragraph. This checklist does not include disclosures required by SOP 07-1.

.18 Any guidance issued subsequent to September 30, 2009 has not been included in this checklist; therefore, if your company has a fiscal year-end after September 30, 2009, you need to consider the applicability of such guidance.

.19 This checklist contains numerous references to authoritative accounting guidance. Abbreviations and acronyms used in such references include the following:

AAG-INV =	AICPA Audit and Accounting Guide <i>Investment Companies</i> (with conforming changes as of May 1, 2009)
1940 Act =	Securities and Exchange Commission Investment Company Act of 1940
FASB ASC =	Reference to a topic, subtopic, section, or paragraph in Financial Accounting Standards Board <i>Accounting Standards Codification</i> ™
Form N-1A =	SEC Form N-1A
Form N-2 =	SEC Form N-2
Reg. S-X =	SEC Regulation S-X

.20 The accounting guidance in this checklist has been conformed to reflect reference to FASB ASC as it existed on September 30, 2009.

.21 On June 30, 2009, FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, which is codified in FASB ASC 105, *Generally Accepted Accounting Principles*. On the effective date of this statement, FASB ASC is the authoritative source of U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC. At that time, FASB ASC supersedes all then-existing, non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC is nonauthoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. See the FASB Web site at www.fasb.org for further information.

Instructions

.22 Within this checklist is a number of questions or statements that are accompanied by references to applicable authoritative guidance. The checklist provides spaces for checking off or initialing each question or for indicating that it has been addressed. Carefully review the topics listed and consider whether they represent potential disclosure items for the reporting company for which you are preparing financial statements or auditing them. Users should check or initial

- **Yes**—If the disclosure is required and has been made appropriately.
- **No**—If the disclosure is required but has not been made.
- **N/A (Not Applicable)**—If the disclosure is not applicable to the company.

.23 It is important that the effect of any "No" response be considered on the auditor's report. For audited financial statements, a "No" response that is material to the financial statements may warrant a departure from an unqualified opinion as discussed in paragraphs .20–.64 of AU section 508. If a "No" response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements).

.24 Users may find it helpful to use the right margin for certain other remarks and comments as appropriate, including the following:

- a. For each disclosure for which a "Yes" is indicated, a notation as to where the disclosure is located in the financial statements and a cross-reference to applicable working papers where the support to a disclosure may be found
- b. For items marked as "N/A," the reasons for which they do not apply in the circumstances of the particular report
- c. For each disclosure for which a "No" response is indicated, a notation as to why the disclosure was not made (for example, because the item was not considered to be material to the financial statements)

.25 The checklist and illustrative financial statements have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

.26 The use of this or any other checklist requires the exercise of individual professional judgment. This checklist is not a substitute for the original authoritative guidance. Users of the checklist and illustrative financial statements should refer directly to applicable authoritative guidance when appropriate. The check-

list and illustrative materials may not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Additionally, users of the checklist and illustrative materials should tailor them as required to meet specific circumstances. As an additional resource, members may call the AICPA Technical Hotline at (877) 242-7212.

Recognition

.27 The AICPA gratefully appreciates the invaluable assistance Keira A. Lichtenstein provided in updating and maintaining the guidance in this checklist.

.28 We hope you find this checklist helpful as you perform your audit. We would greatly appreciate your feedback on this checklist. You may email these comments to klichtenstein@aicpa.org or write to:

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Note: This publication was extracted from sections 12,000–12,200 of the AICPA *Financial Statement Preparation Manual*.

FSP Section 12,100

Financial Statements and Notes Checklist

.01 Checklist Questionnaire:

This checklist is organized into the sections listed in the following table. Carefully review the topics listed and consider whether they represent potential disclosure items for the investment company. Place a check mark by the topics or sections considered not applicable; these sections need not be completed.

		<i>Place ✓ by Sections Not Applicable</i>
I.	General	
	A. Financial Statements Presented	_____
	B. Reporting Financial Position	_____
II.	Schedule of Investments	_____
III.	Statement of Assets and Liabilities	
	A. Assets	_____
	B. Liabilities	_____
	C. Net Assets	_____
	D. Reporting Fully Benefit-Responsive Investment Contracts	_____
IV.	Statement of Operations	
	A. Income	_____
	B. Expenses	_____
	C. Net Investment Income	_____
	D. Gain or Loss From Investments and Foreign Currency Transactions	_____
	E. Net Increase or Decrease in Net Assets From Operations	_____
	F. Reporting Fully Benefit-Responsive Investment Contracts	_____
V.	Statement of Changes in Net Assets	_____
VI.	Statement of Cash Flows	_____
VII.	Financial Highlights	_____
VIII.	Fully Benefit-Responsive Investment Contract Disclosures	_____
IX.	Other Disclosure Requirements	_____
X.	Interim Financial Statements	_____
XI.	Funds With Multiple Classes of Shares or Master-Feeder Structures	_____

I. General

Yes	No	N/A
-----	----	-----

Practice Tips

The AICPA has released several nonauthoritative Technical Questions and Answers (TIS) sections that answer questions accountants and auditors may have regarding investment companies. These questions and answers are located in TIS section 6910, *Investment Companies* (AICPA, *Technical Practice Aids*). The following TIS sections were recently released:

- TIS section 6910.29, "Allocation of Unrealized Gain (Loss), Recognition of Carried Interest, and Clawback Obligations"
- TIS section 6910.30, "Disclosure Requirements of Investments for Nonregistered Investment Partnerships When Their Interest in an Investee Fund Constitutes Less Than 5 Percent of the Nonregistered Investment Partnership's Net Assets"
- TIS section 6910.31, "The Nonregistered Investment Partnership's Method for Calculating Its Proportional Share of Any Investments Owned by an Investee Fund in Applying the '5 Percent Test' Described in TIS Section 6910.30"
- TIS section 6910.32, "Additional Financial Statement Disclosures for Nonregistered Investment Partnerships When the Partnership Has Provided Guarantees Related to the Investee Fund's Debt"

TPAs are nonauthoritative and are not sources of established accounting principles as described in Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 105, *Generally Accepted Accounting Principles*.

A. Financial Statements Presented

1. For nonregistered investment companies, are the following financial statements presented:

- a. A statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein, as of the close of the latest period? (At a minimum, a condensed schedule of investments should be provided for each statement of assets and liabilities.)

_____	_____	_____
-------	-------	-------

- b. A statement of operations for the latest period?

_____	_____	_____
-------	-------	-------

- c. A statement of cash flows for the latest period (if not exempted by FASB ASC 230-10)?

_____	_____	_____
-------	-------	-------

- d. A statement of changes in net assets for the latest period?

_____	_____	_____
-------	-------	-------

- e. Financial highlights for the latest period consisting of

- i. per share operating performance, net investment income, and expense ratios and total return for investment companies organized in a manner using unitized net asset value?

_____	_____	_____
-------	-------	-------

- ii. net investment income and expense ratios and total return for investment companies not using unitized net asset value, or the internal rate of return (IRR) since inception if applicable?

_____	_____	_____
-------	-------	-------

[FASB ASC 946-205-45-1]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For registered investment companies, are the following financial statements presented:			
a. A statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein, (a detailed list of investments in securities, options written, securities sold short and other investments) as of the close of the latest period? (A schedule of investments should be provided for each statement of assets and liabilities in conformity with Rule 12-12 or Rule 12-12C of Regulation S-X.)	_____	_____	_____
b. A statement of operations for the latest year?	_____	_____	_____
c. A statement of cash flows for the latest year (if not exempted by FASB ASC 230-10)?	_____	_____	_____
d. A statement of changes in net assets for the latest two years (for semiannual reports, the most recent semiannual period and preceding fiscal year)?	_____	_____	_____
e. Financial highlights for the latest five fiscal years (for semiannual reports, the semiannual period and generally the preceding five fiscal years)? [FASB ASC 946-205-45-1]	_____	_____	_____
3. For investment companies not using unitized net asset value, are financial highlights (which consist of net investment income and expense ratios and total return or the IRR since inception) presented? [FASB ASC 946-205-45-2]	_____	_____	_____
4. Are financial statements and related disclosures presented for each series in a series fund (one or more series may be presented in a separate document)? [Reg. S-X Rule 6.03(j)]	_____	_____	_____
5. For nonpublic investment companies, are the applicable provisions of FASB ASC 946-210 followed, or are a complete set of master financial statements with each feeder financial statement, in a manner consistent with the requirements for public investment companies, presented? [FASB ASC 946-210; FASB ASC 946-205-45-6]	_____	_____	_____

Note: The financial statements of unit investment trusts are similar to those of management investment companies. When a trust is formed, the financial statements filed with the Securities and Exchange Commission (SEC) on Form S-6 include a statement of assets and liabilities and a schedule of investments. Subsequently, if the sponsor repurchases and re-offers trust units in the secondary market, a posteffective amendment to Form S-6 must be filed periodically with the SEC. The financial statements included in the posteffective amendment, which are prepared in accordance with Regulation S-X, include a statement of assets and liabilities, a schedule of investments, statements of operations, and statements of changes in net assets.
[AAG-INV 9.16]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Reporting Financial Position			
1. If a statement of net assets is presented, is the amount of investments in securities of unaffiliated issuers at least 95 percent of total assets? [Reg. S-X 6-05]	_____	_____	_____
2. Does the statement of assets and liabilities present a list of assets and liabilities and an amount for net assets equal to the difference between the totals? [Reg. S-X 6-05]	_____	_____	_____
3. Does the statement of net assets include a schedule of investments? [FASB ASC 946-210-45-2]	_____	_____	_____
4. If a statement of net assets is presented, are details of related-party balances and other assets and liabilities presented in the statement of net assets or in the notes to the financial statements? [FASB ASC 946-210-45-2]	_____	_____	_____
5. Are additional disclosures prescribed for a statement of net assets in Rule 6-05 of Regulation S-X presented? [Reg. S-X 6-05]	_____	_____	_____
6. Is the net asset value per share and shares outstanding presented for each class? [FASB ASC 946-210-45-4]	_____	_____	_____
7. Is the composition of net assets for multiple-class funds reported in total? [FASB ASC 946-210-45-4]	_____	_____	_____

II. Schedule of Investments

Practice Tip

As discussed in FASB ASC 946-210-50-8, investments in other investment companies (investees), such as investment partnerships, limited liability companies, and funds of funds, should be considered investments for purposes of applying the guidance in (a) and (b) in question 1.

- | | | | |
|---|-------|-------|-------|
| 1. For investment companies other than nonregistered investment partnerships, in the absence of regulatory requirements, does the schedule of investments | | | |
| a. disclose the name, share, or principal amount of | | | |
| i. each investment (including short sales, written options, futures contracts, forward contracts, and other investment-related liabilities) whose fair value constitutes more than one percent of net assets? In applying the one percent test, total long and total short positions in any one issuer should be considered separately. | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ii. all investments in any one issuer whose fair values aggregate more than one percent of net assets? In applying the one percent test, total long and total short positions in any one issuer should be considered separately.	_____	_____	_____
iii. at a minimum, the 50 largest investments?	_____	_____	_____
b. categorize investments by both of the following characteristics:			
i. Type?	_____	_____	_____
ii. Related industry, country, or geographic region of the investment?	_____	_____	_____
c. disclose the aggregate other investments (each of which is not required to be disclosed by question 1(a) preceding) without specifically identifying the issuers of such investments and categorize as required by question 1(b) preceding:			
i. The percent of net assets that each such category represents?	_____	_____	_____
ii. The total value for each category in question 1(b) (i)–(ii)? [FASB ASC 946-210-50-1]	_____	_____	_____
2. For public registrants, do disclosures relating to repurchase agreements include (Rule 12-12 of Regulation S-X requires that each issue shall be listed separately)			
a. parties to the agreement?	_____	_____	_____
b. date of the agreement to repurchase?	_____	_____	_____
c. repurchase date?	_____	_____	_____
d. total amount to be received upon repurchase?	_____	_____	_____
e. description of securities subject to the repurchase agreement? [Reg. S-X 12-12]	_____	_____	_____
3. For public registrants that prepare a summary schedule of investments, are fully collateralized repurchase agreements aggregated and treated as a single issue, with a footnote that indicates the range of dates of the repurchase agreements, the total purchase price of the securities, the total amount to be received upon repurchase, the range of repurchase dates, and a description of securities subject to the repurchase agreements without regard to percentage of net assets or issuer? [Reg. S-X 12-12C]	_____	_____	_____
4. For public registrants, are investments in restricted securities, affiliated companies, securities subject to call options, and when-issued securities disclosed? [Reg. S-X 12-12 and 12-12C]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. For public companies, are nonincome-producing securities identified? [Reg. S-X 12-12 and 12-12C]	_____	_____	_____
6. For public companies, are assets pledged as collateral identified? [Reg. S-X 4-08(b)]	_____	_____	_____
7. Where a detailed list of short term investments is presented, has consideration been given to summarizing such investments by issuer and disclosing their ranges of interest rates and maturity dates (<i>common practice</i>)? [AAG-INV 7.20]	_____	_____	_____
8. For public registrants that prepare a summary schedule of investments, are short term debt instruments of the same issuer aggregated and treated as a single issue, with disclosure indicating the range of interest rates and maturity dates? [Reg. S-X 12-12C]	_____	_____	_____

Note: If financial statements of an investment partnership that are exempt from SEC registration do not include the required Schedule of Investments disclosures that are listed in FASB ASC 946-210-50-6 and it is practicable for the auditor to determine them or any portion thereof, the auditor should include the information in his or her report expressing the qualified or adverse opinion.
[AAG-INV 7.22]

Practice Tip

As discussed in FASB ASC 946-210-50-6(c)(1), in applying the 5 percent test, total long and total short positions in any one issuer should be considered separately.

Further, as discussed in FASB ASC 946-210-50-8, investments in other investment companies (investees), such as investment partnerships, limited liability companies, and funds of funds, should be considered investments for purposes of applying the guidance in question 9.

9. Do the financial statements of investment partnerships that are exempt from SEC registration under the Investment Company Act of 1940 include, at a minimum, a condensed schedule of investments in securities owned by the partnership at the close of the most recent period that does the following:			
a. Categorize investments by			
i. type?	_____	_____	_____
ii. country or geographic region, except for derivative instruments for which the underlying is not a security?	_____	_____	_____
iii. industry, except for derivative instruments for which the underlying is not a security?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
iv. for derivative instruments for which the underlying is not a security, by broad category of underlying in place of the categories in question 9(a)(ii)–(iii)?	_____	_____	_____
b. Report the percent of net assets that each category represents in question 9(c) and the total value and cost for each?	_____	_____	_____
c. Disclose the name, shares or principal amount, value, and type for both of the following:			
i. Each investment (including short sales) constituting more than five percent of net assets, except for derivative instruments as discussed in question 9(e)–(f) ?	_____	_____	_____
ii. All investments in any one issuer aggregating more than five percent of net assets, except for derivative instruments as discussed in question 9(e)–(f)?	_____	_____	_____
d. Aggregate other investments (each of which is five percent or less of net assets)			
i. without specifically identifying the issuers of such investments?	_____	_____	_____
ii. and categorize them in accordance with question 9(a)?	_____	_____	_____
e. Disclose the number of contracts, range of expiration dates, and cumulative appreciation (depreciation) for open futures contracts of a particular underlying, regardless of exchange, delivery location, or delivery date, if cumulative appreciation (depreciation) on the open contracts exceeds five percent of net assets?	_____	_____	_____
f. Disclose the range of expiration dates and fair value for all other derivatives of a particular underlying, regardless of counterparty, exchange, or delivery date, if fair value exceeds five percent of net assets?	_____	_____	_____
g. Provide the following qualitative description for each investment in another nonregistered investment partnership whose fair value constitutes more than five percent of net assets:			
i. The investment objective?	_____	_____	_____
ii. Restrictions on redemption (that is, liquidity provisions)?	_____	_____	_____
[FASB ASC 946-210-50-6]			

Notes: The following TIS sections address application of the guidance in FASB ASC 946-210-50-6:

- TIS section 6910.16, “Presentation of Boxed Investment Positions in the Condensed Schedule of Investments of Nonregistered Investment Partnerships”

(continued)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<hr/>			
<ul style="list-style-type: none"> • TIS section 6910.17, "Disclosure of Long and Short Positions" • TIS section 6910.18, "Disclosure of an Investment in an Issuer When One or More Securities and/or One or More Derivative Contracts Are Held" 			
TIS sections are nonauthoritative and are not sources of established accounting principles as described in FASB ASC 105.			

AAG-INV paragraph 7.132 provides an illustration of a condensed schedule of investments.			
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10. Investments in Other Investment Companies			
a. If the reporting investment company's proportional share of any investment owned by any individual investee exceeds five percent of the reporting company's net assets at the reporting date, has each such investment been named and categorized as discussed in question 9?	<hr/>	<hr/>	<hr/>
b. Are these investee disclosures made either in the condensed schedule of investments (as components of the investment in the investee) or in a note to that schedule?	<hr/>	<hr/>	<hr/>
c. If information about the investee's portfolio is not available, is that fact disclosed? [FASB ASC 946-210-50 par. 9-10]	<hr/>	<hr/>	<hr/>
11. Are credit enhancements shown as a component of the security description in the schedule of investments? [FASB ASC 946-210-45-8]	<hr/>	<hr/>	<hr/>
12. Is separate disclosure of credit enhancements provided on the face of the schedule of investments, complying, where applicable, with Rules 6-04.1 and 6-04.3 of Reg. S-X? [Reg. S-X]	<hr/>	<hr/>	<hr/>
13. Are the terms, conditions, and other arrangements relating to credit enhancements disclosed in the notes to the financial statements? [FASB ASC 946-210-50-11]	<hr/>	<hr/>	<hr/>
14. For a letter of credit, is the name of the entity issuing the letter of credit disclosed separately? [FASB ASC 946-210-50-13]	<hr/>	<hr/>	<hr/>
15. Are put options provided by an affiliate described as from an affiliate in the schedule of investments, and the name and relationship of the affiliate included in the notes to the financial statements? [FASB ASC 946-210-50-12]	<hr/>	<hr/>	<hr/>

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
16. If the investment company is required by FASB ASC 946-210-50-1 to present a Schedule of Investments, is the following information disclosed and reconciled to the corresponding line items on the statement of assets and liabilities:			
a. The fair value of each investment contract, including separate disclosure of both of the following:			
i. The fair value of the wrapper contract?	_____	_____	_____
ii. The fair value of each of the corresponding underlying investments, if held by the fund, included in that investment contract?	_____	_____	_____
b. Adjustment from fair value to contract value for each investment contract (if the investment contract is fully benefit-responsive)?	_____	_____	_____
c. Major credit ratings of the issuer or wrapper provider for each investment contract? [FASB ASC 946-210-45-18]	_____	_____	_____
17. Is the aggregate cost of securities for federal income tax purposes disclosed? [Reg. S-X 12-12 (note 8) and 12-12C (note 11)]	_____	_____	_____
18. Are additional disclosures made in accordance with Reg. S-X Rule 12-12 or Rule 12-12C pertaining to gross unrealized appreciation for all securities in which there is an excess of value over tax cost and gross unrealized depreciation for all securities in which there is an excess of tax cost over value, as well as net unrealized appreciation or depreciation (on a tax basis)? [Reg. S-X 12-12 (note 8) and 12-12C (note 11)]	_____	_____	_____
19. Are additional disclosures made about restricted securities, in accordance with SEC <i>Codification of Financial Reporting Policies</i> , Section 404 and Reg. S-X Rule 12-12 (note 6) or Rule 12-12C (note 9)? [Reg. S-X 12-12 (note 6) and 12-12C (note 9)]	_____	_____	_____
20. If any securities are listed as “miscellaneous securities” does a footnote briefly explain what the term represents? [Reg. S-X 12-12 (note 1)]	_____	_____	_____
21. If any securities are listed as “miscellaneous securities” or “other securities” does a footnote briefly explain what the terms represent? [Reg. S-X 12-12C (note 6)]	_____	_____	_____

III. Statement of Assets and Liabilities

Practice Tip

The AICPA Alternative Investments Task Force issued the practice aid *Alternative Investments—Audit Considerations*, which discusses investments in financial instruments that do not have a readily determinable
(continued)

Yes	No	N/A
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market value. The nonauthoritative practice aid is designed to assist auditors in auditing alternative investments and includes guidance on the following topics:

1. General considerations pertaining to auditing alternative investments
2. Addressing management's financial statement existence assertion
3. Addressing management's financial statement valuation assertion
4. Management representations
5. Disclosure of certain significant risks and uncertainties
6. Reporting

Additionally, FASB Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, was issued in September 2009 and discusses fair value measurement of alternative investments. This guidance was included in the "Pending Content" section of FASB ASC 820-10 and is effective for the first reporting period, including interim periods, ending after December 15, 2009. See the transition and open effective date information located at FASB ASC 820-10-65-6 and the AICPA and FASB Web sites at for additional information.

A. Assets

Notes: FASB ASC 820, *Fair Value Measurements and Disclosures*, defines *fair value*, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 820-10-35-44 prohibits the use of a blockage factor, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and if placing orders to sell the position in a single transaction might affect the quoted price. The guidance applies for positions in a single financial instrument (including a block) held by all entities, including investment companies within the scope of FASB ASC 946, *Financial Services—Investment Companies*.

On April 9, 2009, FASB issued FASB Staff Position (FSP) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which is codified in the "Pending Content" section of FASB ASC 820-10. The purpose of this FSP is to provide additional guidance in the application of fair value accounting in an inactive market; it also supersedes FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*.

In August 2009, FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*. This ASU was issued to increase the consistency in the application of FASB ASC 820 to liabilities. This ASU applies to all entities that measure liabilities at fair value under FASB ASC 820 and amends sections of FASB ASC 820-10.

As previously mentioned, FASB also issued ASU No. 2009-12 in 2009. This guidance was issued because of the complexities and practical difficulties in estimating the fair value of alternative investments. It is applicable to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a

(continued)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>recurring or nonrecurring basis, and as of the reporting entity's measurement date, if the investment both does not have a <i>readily determinable fair value</i> and is in an entity that has all of the attributes specified in FASB ASC 946-10-15-2 or, if one of those attributes is not met, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in FASB ASC 946. As a practical expedient, this ASU permits a reporting entity to measure the fair value of an investment within its scope on the basis of the net asset value (NAV) per share of the investment (or its equivalent) if the NAV is calculated in a manner consistent with the measurement principles of FASB ASC 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with FASB ASC 820.</p> <p>See section BB of <i>Checklists and Illustrative Financial Statements: Corporations</i> for a complete list of disclosure questions related to FASB ASC 820.</p>			
1. Investments in Securities			
a. Is consideration given to reporting investments in securities as the first asset (<i>common practice</i>)? [AAG-INV 7.28]	_____	_____	_____
b. If material, is consideration given to disclosing in the notes to the financial statements the circumstances surrounding the substitution of good-faith estimates of fair value for market quotations or pricing service valuations (<i>common practice</i>)? [AAG-INV 2.48]	_____	_____	_____
c. For investments in foreign securities, have liquidity, size, and valuation been considered for disclosure if such factors exist in the markets in which the fund has material investments? [FASB ASC 946-830-50-2]	_____	_____	_____
d. Are appropriate disclosures about the method(s) used to determine the value of investments stated in the notes to the financial statements? [Reg. S-X 6-03(d)]	_____	_____	_____
e. Are investments in securities of unaffiliated issuers shown in the balance sheet and reflected at value, with aggregate cost shown parenthetically? [Reg. S-X 6-03(d) and 6-04.1]	_____	_____	_____
f. Are investments in and advances to affiliates shown in the balance sheet and reflected at value, with aggregate cost shown parenthetically? [Reg. S-X 6-03(d) and 6-04.2]	_____	_____	_____
g. Are investments in and advances to affiliates stated separately for			
i. controlled companies?	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
	ii. other affiliates? [Reg. S-X 6-04.2]	_____	_____	_____
<i>h.</i>	Are investments, other than securities, stated separately by major category and at value, with the aggregate cost shown parenthetically? [Reg. S-X 6-04.3 and 6-03(d)]	_____	_____	_____
<i>i.</i>	Is an amount for total investments shown in the balance sheet and at value, with the aggregate cost shown parenthetically? [Reg. S-X 6-04.4 and 6-03(d)]	_____	_____	_____
2.	Cash			
<i>a.</i>	Are cash on hand and demand deposits included under the general caption "Cash"? [FASB ASC 946-305-45-1]	_____	_____	_____
<i>b.</i>	Are amounts held in foreign currencies disclosed separately at value, with acquisition cost shown parenthetically? [FASB ASC 946-305-45-2]	_____	_____	_____
<i>c.</i>	Is separate disclosure made of time deposits and other funds subject to withdrawal or usage restrictions, including the provisions of any restrictions? [Reg. S-X 6-05.1]	_____	_____	_____
3.	Receivables			
<i>a.</i>	Are receivables listed separately for each of the following categories at net realizable value, among others:			
<i>i.</i>	Dividends and interest?	_____	_____	_____
<i>ii.</i>	Investment securities sold?	_____	_____	_____
<i>iii.</i>	Capital stock sold?	_____	_____	_____
<i>iv.</i>	Other accounts receivable, such as receivables from related parties, including expense reimbursement receivables from affiliates, and variation margin on open futures contracts? [FASB ASC 946-310-45-1]	_____	_____	_____
<i>v.</i>	Directors and officers? [Reg. S-X 6-04.6]	_____	_____	_____
<i>vi.</i>	Notes receivable, if the aggregate amount exceeds 10 percent of the aggregate amount of the receivables? [Reg. S-X 6-04.6(b)]	_____	_____	_____
<i>vii.</i>	Others? [Reg. S-X 6-04.6]	_____	_____	_____
<i>b.</i>	Are receivables in foreign currencies converted into the functional currency at current exchange rates? [FASB ASC 946-310-45-2]	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
4.	Other Assets			
a.	Are deferred offering costs, prepaid taxes, and prepaid insurance considered for inclusion under this caption, with amounts not reported separately unless significant (<i>common practice</i>)? [AAG-INV 7.35]	_____	_____	_____
b.	For public registrants, are amounts held by others in connection with short sales, option contracts, financial futures contracts, and collateral received for securities loaned stated separately? [Reg. S-X 6-04.7 and 6-04.11]	_____	_____	_____
c.	Are prepaid and deferred expenses, pension and other special funds, organization expenses, and other significant items not classified in another asset caption stated separately? [Reg. S-X 6-04.8]	_____	_____	_____
5.	Total Assets			
a.	Is the amount of total assets shown in the balance sheet? [Reg. S-X 6-04.9]	_____	_____	_____
B. Liabilities				
1.	Accounts Payable			
a.	Are accounts payable listed separately for investment securities purchased and capital stock reacquired? [FASB ASC 946-405-45-1]	_____	_____	_____
b.	Are amounts payable for securities sold short, open options contracts written, other purchases of securities, capital shares redeemed, dividends or other distributions on capital shares, and other items stated separately? [Reg. S-X 6-04.10]	_____	_____	_____
2.	Call or Put Options Written, Futures Contracts Sold, and Securities Sold Short			
a.	Are call or put options written and securities sold short at the close of the period presented separately? [Reg. S-X 6-04.10]	_____	_____	_____
b.	Is consideration given to disclosing the premiums received on written options and proceeds from short sales parenthetically (<i>common practice</i>)? [AAG-INV 7.42]	_____	_____	_____
c.	If significant, is consideration given to separately disclosing the variation margin due to a broker on futures contracts (<i>common practice</i>)? [AAG-INV 7.42]	_____	_____	_____

Investment Companies

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
d.	Is consideration given to providing details of securities sold short, options written, and futures contracts, including information about quantities, fair values, and proceeds and is consideration given to presenting them within the schedule of investments (<i>common practice</i>)? [AAG-INV 7.42]	_____	_____	_____
e.	If information is presented for options written, is consideration given to including the number of shares or principle amount, the fair value of each option, the strike price, and the exercise date (<i>common practice</i>)? [AAG-INV 7.42]	_____	_____	_____
3.	Accrued Liabilities			
a.	Is consideration given to having accrued liabilities include liabilities for management fees, performance fees, distribution fees, interest, compensation, taxes, and other expenses incurred in the normal course of operations, with separate disclosure for related-party payables (<i>common practice</i>)? [AAG-INV 7.43]	_____	_____	_____
4.	Notes Payable and Other Debt			
a.	Is consideration given to separately reporting notes payable to banks, including bank overdrafts, and to others, and other debt being stated at amounts payable, net of unamortized premium or discount, unless the fair value option, which is permitted under FASB ASC 825, <i>Financial Instruments</i> , is elected (<i>common practice</i>)? [AAG-INV 7.44]	_____	_____	_____
b.	Has information related to unused lines of credit, conditions of credit agreements, and long-term debt maturities been considered for disclosure in the notes to the financial statements (<i>common practice</i>)? [AAG-INV 7.44]	_____	_____	_____
c.	For any long-term debt for which the fair value option has been elected, have debt issuance costs not been deferred? [FASB ASC 825-10-25-3]	_____	_____	_____
d.	Are amounts payable to (1) banks or other financial institutions for borrowings, (2) controlled companies, (3) other affiliates, and (4) others, stated separately, showing for each category amounts payable within one year and amounts payable after one year? [Reg. S-X 6-04.13a]	_____	_____	_____
e.	Is disclosure made regarding unused lines of credit for short-term financing and unused commitments for long-term financing arrangements? [Reg. S-X 6-04.13b]	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
5.	Other Liabilities			
a.	Are amounts due to counterparties for collateral on return of securities loaned, deferred income, and dividends and distributions payable included in other liabilities?	_____	_____	_____
b.	Are payables denominated in foreign currencies converted into the functional currency at current exchange rates? [FASB ASC 946-405-45-2]	_____	_____	_____
c.	For funds with a 12b-1 plan, do the financial statements disclose			
i.	the principal terms of the plan (traditional and enhanced plans)?	_____	_____	_____
ii.	any plan provisions permitting or requiring payments of excess costs after plan termination (traditional and enhanced plans)?	_____	_____	_____
iii.	the aggregate amount of distribution costs subject to recovery through future payments by the fund pursuant to the plan and future contingent-deferred sales load payments by current shareholders (board-contingent and enhanced plans)?	_____	_____	_____
iv.	the methodology used to estimate future contingent-deferred sales load payments by current shareholders (enhanced plans)? [FASB ASC 946-20-50-3]	_____	_____	_____
d.	Are (1) amounts payable for investment advisory, management and service fees, (2) the total amount payable to (a) officers and directors, (b) controlled companies, and (c) other affiliates, excluding any amounts owing to noncontrolled affiliates which arose in the ordinary course of business and which are subject to usual trade terms, stated separately? [Reg. S-X 6-04.12]	_____	_____	_____
e.	Are the value of securities loaned and the nature of any collateral received as security for the loan, including the amount of any cash received, stated? [Reg. S-X 6-04.11]	_____	_____	_____
6.	Total Liabilities			
a.	Is the amount of total liabilities shown in the balance sheet? [Reg. S-X 6-04.14]	_____	_____	_____
b.	Are commitments and contingent liabilities disclosed? [Reg. S-X 6-04.15]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
C. Net Assets			
1. Are the following disclosed either on the face of the statement or in the notes:			
a. Units of capital, including the title of each class of capital shares or other capital units, the number authorized, the number outstanding and the dollar amount? [Reg. S-X 6-04]	_____	_____	_____
b. Shareholder capital?	_____	_____	_____
c. Distributable earnings? [FASB ASC 946-20-50-11]	_____	_____	_____
<p>Note: As discussed in AAG-INV paragraph 7.54(c), distributable earnings include cumulative net investment income or loss, cumulative amounts of gains and losses realized from investment and foreign currency transactions, net unrealized appreciation or depreciation of investments and foreign currencies, and distributions paid to shareholders other than tax return of capital distributions.</p>			
2. Are the tax-basis components of distributable earnings as of the most recent tax year end: undistributed ordinary income, undistributed long-term capital gains, capital loss carryforwards, and unrealized appreciation (depreciation), disclosed in the notes to the financial statements? [FASB ASC 946-20-50-12]	_____	_____	_____
3. If a provision for deferred income taxes on unrealized appreciation exists, is it charged against the unrealized gains account and disclosed as such in the statement of operations? [FASB ASC 946-20-50-13]	_____	_____	_____
4. Are explanations provided for the differences between the total of these amounts and distributable earnings (accumulated losses)? [FASB ASC 946-20-50-13]	_____	_____	_____
5. Is net asset value per share disclosed for each class of shares? [FASB ASC 946-505-50-1]	_____	_____	_____
6. Are any other elements of capital or residual interests appropriate to the capital structure of the reporting entity disclosed? [Reg. S-X 6-04.18]	_____	_____	_____
7. Is the net asset value per share shown? [Reg. S-X 6-04.19]	_____	_____	_____
8. For a registered investment company, consistent with SEC staff announcement "Classification and Measurement of Redeemable Securities," is preferred stock not included under the caption "Net assets" if the investment company may be required to redeem all or part of the preferred stock upon failure to satisfy statistical coverage requirements imposed by its governing documents or a rating agency? [AAG-INV 7.57]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>Note: Under FASB ASC 480, <i>Distinguishing Liabilities from Equity</i>, financial instruments that are mandatorily redeemable on a fixed date or upon the occurrence of an event certain to occur should be classified initially as liabilities. Contingently redeemable securities, such as those described in the AAG-INV paragraph 7.57, are not within the scope of FASB ASC 480 unless and until the contingency occurs, at which time the instruments should be reclassified as liabilities. Therefore, with respect to contingently redeemable securities for which the contingency has not occurred, the guidance in AAG-INV paragraph 7.57 should continue to be followed by registered investment companies. FASB deferred the effective date of portions of the guidance in FASB ASC 480. See FASB ASC 480-10-65-1 for a complete discussion of the deferral. [AAG-INV 7.58]</p>			
9. For closed-end funds, are distributions to preferred stockholders presented as a component of the net increase (decrease) in net assets resulting from investment operations, below net investment income on the statement of operations, the statement of changes in net assets and financial highlights? [AAG-INV 7.57]	_____	_____	_____
10. For investment partnerships and other pass-through entities, have all elements of equity been aggregated into partners' capital because the results from operations are deemed distributed to each partner? [FASB ASC 946-20-50-14]	_____	_____	_____
D. Reporting Fully Benefit-Responsive Investment Contracts			
1. Are investments (including traditional guaranteed investment contracts) and wrapper contracts separately reported on the statement of assets and liabilities, with parenthetical reference that such amounts are being reported at fair value? [FASB ASC 946-210-45-15]	_____	_____	_____
2. Does the statement of assets and liabilities present			
a. total assets?	_____	_____	_____
b. total liabilities?	_____	_____	_____
c. net assets reflecting all investments at fair value?	_____	_____	_____
d. net assets? [FASB ASC 946-210-45-16]	_____	_____	_____
3. Is the difference between net assets reflecting all investments at fair value (from question 2(c)) and net assets (from question 2(d)) presented as a single amount on the face of the statement of assets and liabilities (calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value)? [FASB ASC 946-210-45-16]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Is net assets used for purposes of preparing per-share disclosures required by FASB ASC 946-205-50 and as the beginning and ending balance in the statement of changes in net assets of the fund? [FASB ASC 946-210-45-16]	_____	_____	_____

IV. Statement of Operations

A. Income

1. Are dividends from affiliates and controlled companies disclosed? [FASB ASC 946-20-50-9]	_____	_____	_____
2. Is consideration given to separately disclosing interest earned on securities of affiliates and controlled companies (<i>common practice</i>)? [AAG-INV 7.62]	_____	_____	_____
3. Is consideration given to disclosing individual items in other income, if material, separately (<i>common practice</i>)? [AAG-INV 7.63]	_____	_____	_____
4. Is consideration given to including fee income from securities loaned and from miscellaneous sources in other income (<i>common practice</i>)? [AAG-INV 7.63]	_____	_____	_____
5. Are taxes withheld that are not reclaimable on foreign source income deducted from the relevant income item and shown either parenthetically or as a separate contra item in the income section? [FASB ASC 946-830-45-39]	_____	_____	_____
6. If noncash dividends are included in income, are the bases of recognition and measurement used disclosed? [Reg. S-X 6-07.1]	_____	_____	_____
7. Are income from dividends, interest on securities, and other income stated separately under the caption "Investment Income"? [Reg. S-X 6-07.1]	_____	_____	_____
8. Is any other category of income which exceeds five percent of the total shown under the caption "Investment Income" stated separately? [Reg. S-X 6-07.1]	_____	_____	_____

B. Expenses

1. Are the following expenses reported separately:			
a. Investment advisory (management) fees (or compensation)?	_____	_____	_____
b. Administration fees payable to an affiliate (if accrued under a separate agreement)?	_____	_____	_____
c. Shareholder service costs, including fees and expenses for the transfer agent and dividend disbursing agent?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>d.</i> Distribution (12b-1) expenses?	_____	_____	_____
<i>e.</i> Custodian fees?	_____	_____	_____
<i>f.</i> Costs of reports to shareholders?	_____	_____	_____
<i>g.</i> Federal and state income taxes, shown separately after the income category to which they apply, such as investment income and realized or unrealized gains?	_____	_____	_____
<i>h.</i> Other taxes (foreign withholding taxes deducted from the relevant income item and disclosed parenthetically or shown as a separate contra item in the income section)?	_____	_____	_____
<i>i.</i> Interest, including interest on debt, bank borrowings, and reverse repurchase agreements?	_____	_____	_____
<i>j.</i> Dividends on securities sold short?	_____	_____	_____
<i>k.</i> Professional fees?	_____	_____	_____
<i>l.</i> Directors' or trustees' fees?	_____	_____	_____
<i>m.</i> Registration fees and expenses? [FASB ASC 946-225-45-3]	_____	_____	_____
2. Is income tax expense presented under the separate income categories to which it applies (such as investment income or realized and unrealized gains)? [FASB ASC 946-225-45-4]	_____	_____	_____
3. Are significant provisions of related-party agreements, including the basis for determining management, advisory, administration, or distribution fees and other amounts paid to affiliates or related parties, described in a note to the financial statements in accordance with the requirements of FASB ASC 850, <i>Related Party Disclosures</i> ? [FASB ASC 850-10-50-1]	_____	_____	_____
4. Are all voluntary and involuntary waivers disclosed on the face of the statement of operations as a reduction of total expenses? [FASB ASC 946-20-50-7]	_____	_____	_____
5. Are the terms of all voluntary and involuntary waivers disclosed in the notes to the financial statements? [FASB ASC 946-20-50-7]	_____	_____	_____
6. If a 12b-1 distribution reimbursement plan provides for the carryover of unreimbursed costs to subsequent periods, are the terms of reimbursement and the unreimbursed amount disclosed? [FASB ASC 946-20-50-4]	_____	_____	_____
7. If the investment company has a brokerage service arrangement with a broker-dealer or an affiliate of a broker-dealer			
<i>a.</i> does the relevant expense caption on the statement of operations include the amount that would have been incurred by the investment company for such services had it paid for the services directly in an arms-length transaction?	_____	_____	_____

Investment Companies

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
	<p><i>b.</i> are such amounts also shown as a corresponding reduction in total expenses, captioned as “Fees paid indirectly”?</p> <p>[FASB ASC 946-20-05-9; FASB ASC 946-20-45-3]</p>	_____	_____	_____
	<p><i>c.</i> for registered investment companies, do the notes to the financial statements include the total amounts by which expenses are increased, and list each category that is increased by at least five percent of total expenses?</p> <p>[Reg. S-X 6-07.2(g)]</p>	_____	_____	_____
8.	<p>Have required disclosures been made in the notes to the financial statements related to brokerage/service arrangements and expense offset arrangements?</p> <p>[Reg. S-X 6-07.2(g)]</p>	_____	_____	_____
9.	<p>Are expense offset arrangements, under which a third party explicitly reduces its fees by a specified or readily ascertainable amount for services provided to the investment company in exchange for use of the investment company’s assets, presented in the statement of operations, and notes to the financial statements in the same manner as brokerage service arrangements?</p> <p>[FASB ASC 946-20-45-5]</p>	_____	_____	_____
10.	<p>As discussed in FASB ASC 946-20-05-10, for investment companies organized as limited partnerships that receive advisory services from the general partner (many partnerships pay fees for such services; others allocate net income from the limited partners’ capital accounts to the general partner’s capital account; others employ a combination of the two methods):</p> <p><i>a.</i> Are the amounts of any such payments or allocations presented in either the statement of operations or the statement of changes in partners’ capital in accordance with the partnership agreement?</p> <p>[FASB ASC 946-20-45-4]</p>	_____	_____	_____
	<p><i>b.</i> Is the method of computing such payments or allocations described in the notes to the financial statements?</p> <p>[FASB ASC 946-20-50-5]</p>	_____	_____	_____
11.	<p>Is the existence of reimbursement agreements and the carry-over of excess expenses potentially reimbursable to the adviser but not recorded as a liability disclosed in the notes to the financial statements?</p> <p>[FASB ASC 946-20-50-6]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. Under the caption "Expenses," is the total amount of investment advisory, management and service fees, and expenses in connection with research, selection, supervision and custody of investments stated separately, with reductions or reimbursements of management or service fees shown as a negative amount or reduction of the total expenses shown under this caption? [Reg. S-X 6-07.2(a)]	_____	_____	_____
13. Are amounts of expenses incurred from transactions with affiliated persons disclosed together with the identity of the related amount applicable to each such person accounting for five percent or more of the total expenses shown under the caption "Expenses" together with a description of the nature of the affiliation? [Reg. S-X 6-07.2(a)]	_____	_____	_____
14. Are expenses incurred within the person's own organization in connection with research, selection, and supervision of investments stated separately? [Reg. S-X 6-07.2(a)]	_____	_____	_____
15. Based on SEC requirements are expenses exceeding five percent of total expenses separately disclosed? [Reg. S-X 6-07.2(b)]	_____	_____	_____
16. Is information concerning management and service fees, the rate of the fee, and the base and method of computation disclosed in a note to the financial statements? [Reg. S-X 6-07.2(c)]	_____	_____	_____
17. Do disclosures separately state the amount and a description of any fee reductions or reimbursements representing (1) expense limitation agreements or commitments and (2) offsets received from broker-dealers showing separately for each amount received or due from (a) unaffiliated persons, and (b) affiliated persons? [Reg. S-X 6-07.2(c)]	_____	_____	_____
18. If no management or service fees are incurred, have the reasons therefor been disclosed? [Reg. S-X 6-07.2(c)]	_____	_____	_____
19. If expenses are paid other than in cash, are the details disclosed in a note? [Reg. S-X 6-07.2(d)]	_____	_____	_____
20. Are the net amounts of sales charges deducted from the proceeds of sale of capital shares that were retained by any affiliated principal underwriter or other affiliated broker-dealer disclosed in a note (open-end management companies)? [Reg. S-X 6-07.2(e)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
21. Is the company's status as a "regulated investment company" (as described in the Internal Revenue Code) disclosed, including a description of the principal assumptions on which the company relied in making or not making provisions for income taxes? [Reg. S-X 6-03(h)]	_____	_____	_____
22. Is the aggregate remuneration paid to the following people disclosed:			
a. All officers?	_____	_____	_____
b. All directors and all members of any advisory board for regular compensation?	_____	_____	_____
c. Each director and each member of any advisory board for special compensation?	_____	_____	_____
d. Each person of whom any officer or director is an affiliated person? [Form N-1A Item 22(b)(3)]	_____	_____	_____
23. Is the average dollar amount of borrowings and the average interest rate disclosed in the statement of operations or in the footnotes to the financial statements? [Reg. S-X 6-07.3]	_____	_____	_____
C. Net Investment Income			
1. Is any income tax provision relating to net investment income disclosed separately? [FASB ASC 946-225-50-1]	_____	_____	_____
2. Is the excess of investment income over total expenses shown as net investment income (loss)? [FASB ASC 946-225-45-5]	_____	_____	_____
D. Gain or Loss From Investments and Foreign Currency Transactions			

Notes: As stated by FASB ASC 946-225-45-6, the net realized gains or losses from investments and net realized gains or losses from foreign currency transactions may be reported separately or may be combined. Additionally, either combining the net unrealized gains or losses from investments with net unrealized gains or losses from foreign currency transactions or reporting them separately is acceptable. FASB ASC 946-830-50-1 goes on to explain that an entity should disclose its practice of either including or excluding that portion of realized and unrealized gains and losses on investments that results from foreign currency changes with or from other foreign currency gains and losses.

Further, as discussed in FASB ASC 946-830-45-36, an investment company is not required to separately disclose that portion of unrealized and realized gains and losses on investments that results from foreign currency changes. All other foreign currency gains and losses should be reported under the realized and unrealized gain or loss on investments and foreign currency section in the statement of operations.

(continued)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>As FASB ASC 946-830-45-37 states, all unrealized foreign currency gain or loss, other than those on investments, should be reported as unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies. The statement of changes in net assets and the statement of assets and liabilities should reflect the same realized and unrealized gain and loss components. It is permissible to report each of the following items as single components in those statements: (a) the combination of the net realized gains or losses from investments with net realized gains or losses from foreign currency transactions and (b) the combination of the net unrealized appreciation (depreciation) on investments with the net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currencies. FASB ASC 946-830-45-38 clarifies that if separate reporting of the unrealized and realized foreign currency gains or losses on investments is chosen, such gains and losses should be aggregated with all other foreign currency gains and losses and reported as described in FASB ASC 946-830-45-37.</p>			
1. Net Realized Gain or Loss From Investments and Foreign Currency Transactions			
a. <i>Investments</i> . Are net realized gains or losses resulting from sales or other disposals of investments reported net of brokerage commissions?	_____	_____	_____
b. <i>Foreign currency transactions</i> . Are net gains and losses from assets or liabilities denominated in foreign currencies during the period reported separately?	_____	_____	_____
c. <i>Foreign currency transactions</i> . If separate reporting of foreign currency effects on realized gains or losses from investments is elected, are those effects included in the caption described in question 1(b)? [FASB ASC 946-225-45-6(a)]	_____	_____	_____
2. Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Investments and Translation of Assets and Liabilities in Foreign Currencies			
a. <i>Investments</i> . Are changes in net unrealized appreciation or depreciation during the period reported in the statement of operations?	_____	_____	_____
b. <i>Investments</i> . Are the major components of unrealized appreciation or depreciation disclosed in a manner that is consistent with question 1 (the guidance in FASB ASC 946-225-45-6(a))?	_____	_____	_____
c. <i>Investments</i> . Is deferred income tax expense presented separately?	_____	_____	_____

Investment Companies

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
d.	<i>Translations of assets and liabilities in foreign currencies.</i> Is the net change during the period from translating assets and liabilities denominated in foreign currencies reported under the caption "Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Translation of Assets and Liabilities in Foreign Currencies"? [FASB ASC 946-225-45-6(b)]	_____	_____	_____
e.	<i>Investments.</i> Is any provision for deferred taxes reported separately (<i>common practice</i>)?	_____	_____	_____
3.	Net Realized and Unrealized Gain or Loss from Investments and Foreign Currency			
a.	Is the sum of net realized gains or losses and changes in unrealized gains or losses on investments and foreign-currency-denominated assets and liabilities presented in the statement of operations as a net gain or loss on investments and foreign currency? [FASB ASC 946-225-45-6(c)]	_____	_____	_____
4.	Net Realized Gain or Loss from Investments			
a.	Are net realized gains or losses disclosed in the statement of operations?	_____	_____	_____
b.	Are gains or losses from in-kind redemptions disclosed?	_____	_____	_____
c.	Do the notes to the financial statements state the company's practice of either including or excluding that portion of realized and unrealized gains and losses from investments that result from foreign currency changes with or from other foreign currency gains and losses? [FASB ASC 946-225-50-2]	_____	_____	_____
5.	For registered investment companies, are net realized gains or losses on investment transactions (investment securities of unaffiliated issuers, investment securities of affiliated issuers, and investments other than securities) disclosed as required by Rule 6-07.7 of Regulation S-X? [Reg. S-X 6-07]	_____	_____	_____
6.	In accordance with the Investment Company Act of 1940, is a statement of the aggregate dollar amounts of purchases and sales of investment securities, other than government securities, made during the period covered by the report? [1940 Act 30(e)(6)]	_____	_____	_____
7.	Are payments made by affiliates related to investment losses as described in FASB ASC 946-20-05-2, combined and reported as a separate line item entitled "net increase from payments by affiliates and net gains (losses) realized on the disposal of investments in violation of restrictions" in the statement of operations as part of net realized and unrealized gains (losses) from investments and foreign currency? [FASB ASC 946-20-45-1]	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
8.	Are amounts and circumstances of payments by affiliates to reimburse the fund for losses on investment transactions described in the notes to the financial statements? [FASB ASC 946-20-50-2]	_____	_____	_____
9.	Are gains and losses on investments not meeting investment guidelines of the fund also disclosed in the notes to the financial statements? [FASB ASC 946-20-50-2]	_____	_____	_____
10.	Are the following stated separately:			
a.	Net realized gain or loss on transactions in			
i.	investment securities of unaffiliated issuers?	_____	_____	_____
ii.	investment securities of affiliated issuers?	_____	_____	_____
iii.	investments other than securities? [Reg. S-X 6-07.7(a)]	_____	_____	_____
b.	Gain or loss from expiration or closing of option contracts written? [Reg. S-X 6-07.7(c)]	_____	_____	_____
c.	Gain or loss on closed short positions in securities? [Reg. S-X 6-07.7(c)]	_____	_____	_____
d.	Other realized gain or loss? [Reg. S-X 6-07.7(c)]	_____	_____	_____
e.	Federal income taxes paid and other income taxes applicable to realized and unrealized gain (loss) on investments, distinguishing taxes payable currently from deferred income taxes? [Reg. S-X 6-07.7(e)]	_____	_____	_____
11.	Do the notes to the financial statements disclose the number and associated dollar amounts as to option contracts written			
a.	at the beginning of the period?	_____	_____	_____
b.	during the period?	_____	_____	_____
c.	expired during the period?	_____	_____	_____
d.	closed during the period?	_____	_____	_____
e.	exercised during the period?	_____	_____	_____
f.	balance at end of the period? [Reg. S-X 6-07.7(c)]	_____	_____	_____
12.	Are distributions of realized gains by other investment companies disclosed separately under the caption "Realized and unrealized gain (loss) on investments, net"? [Reg. S-X 6-07.7(b)]	_____	_____	_____
E.	Net Increase or Decrease in Net Assets From Operations			
1.	Is the sum of net investment income or loss and net realized and unrealized gain or loss on investments and foreign currency shown as a net increase or decrease in net assets resulting from operations? [FASB ASC 946-225-45-7]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
F. Reporting Fully Benefit-Responsive Investment Contracts			
1. Is the statement of operations and changes in net assets prepared on a basis that reflects income credited to participants in the fund and realized and unrealized gains and losses only on those investment contracts that are not deemed fully benefit-responsive? [FASB ASC 946-210-45-17]	_____	_____	_____
V. Statement of Changes in Net Assets			
1. Does the increase or decrease in net assets of a registered investment company comprise the following categories:			
a. Operations, with separate presentation of			
i. net investment income or loss?	_____	_____	_____
ii. net realized gains or losses from investments and foreign currency transactions?	_____	_____	_____
iii. changes in unrealized appreciation or depreciation on investments and translation of assets and liabilities in foreign currencies?	_____	_____	_____
b. Net equalization debits or credits:			
i. If equalization accounting is used, is undistributed investment income included in the price of capital shares issued or reacquired shown as a separate line item?	_____	_____	_____
c. Distributions to shareholders:			
i. Are distributions disclosed as a single line item, except for tax return of capital distributions, which should be disclosed separately? [FASB ASC 946-205-45-3]	_____	_____	_____
2. Is the net change in net assets (excluding amounts shown separately if equalization accounting is used) arising from capital share transactions disclosed for each class of shares, and are the components of the change disclosed on the face of the statement or in the notes to the financial statements for each class of shares as follows:			
a. The number and value of shares sold?	_____	_____	_____
b. The number and value of shares issued in reinvestment of distributions?	_____	_____	_____
c. The number and cost of shares reacquired?	_____	_____	_____
d. The net change? [FASB ASC 946-505-50-2]	_____	_____	_____
3. Dividends			
a. Are dividends paid to investors disclosed as a single line item (except tax return of capital distributions, which should be disclosed separately)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p><i>b.</i> Are the tax-basis components of dividends paid (ordinary income distributions, long-term capital distributions, and return of capital distributions) disclosed in the notes? [FASB ASC 946-20-50-8; FASB ASC 946-505-50-5]</p>	_____	_____	_____
<p>4. <i>Multiple-class funds.</i> For financial reporting purposes, is return of capital not determined at the class level and distributable earnings disclosed only at the fund level? [FASB ASC 946-505-50-4]</p>	_____	_____	_____
<p>5. Differences between net investment income and actual distributions.</p> <p><i>a.</i> Are the primary reasons for any significant difference between total U.S. GAAP-basis net investment income and net realized gain and actual distributions disclosed in the notes to the financial statements? [FASB ASC 946-505-50-6]</p> <p><i>b.</i> If a portion of this difference becomes permanent, is that amount reclassified to paid-in-capital? [FASB ASC 946-205-45-3]</p>	_____	_____	_____
<p>6. If the investment company distributes, after year-end, a portion of undistributed investment income and security gains realized in the preceding year, are per share amounts relating to those distributions, if declared before the audit opinion date, considered for disclosure in the notes to the financial statements (<i>common practice</i>)? [AAG-INV 7.90]</p>	_____	_____	_____
<p>7. Are net assets at the beginning of the year and at the end of the year disclosed? [FASB ASC 946-505-50-3]</p>	_____	_____	_____
<p>8. Does the balance of net assets at the end of the year agree with the comparable amount shown in the statement of assets and liabilities or in the statement of net assets? [FASB ASC 946-505-50-3]</p>	_____	_____	_____
<p>9. For registered investment companies that use equalization accounting, are net equalization debits or credits disclosed as stated by Reg. S-X Rule 6-09.2? [Reg. S-X 6-09.2]</p>	_____	_____	_____
<p>10. Are the statements of operations and changes in net assets prepared on a basis that reflects income credited to participants in the fund and realized and unrealized gains and losses only on those investment contracts that are not deemed fully benefit-responsive? [FASB ASC 946-210-45-17]</p>	_____	_____	_____

	Yes	No	N/A
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VI. Statement of Cash Flows

Note: As discussed in paragraphs 18–21 of FASB ASC 230-10-45, banks, brokers and dealers in securities, and other entities may carry securities and other assets in a trading account. Further, cash receipts and payments resulting from purchases and sales of other securities and other assets should be classified as operating cash flows if those assets are acquired specifically for resale and are carried at market value in a trading account. Lastly, some loans are similar to securities in a trading account in that they are originated and purchased specifically for resale and are held for short periods of time. Cash receipts and payments resulting from acquisitions and sales of loans also should be classified as operating cash flows if those loans are acquired specifically for resale and are carried at market value or at the lower of cost or market value.

[FASB ASC 230-10-45 par. 18–21]

1. When it is necessary to provide a statement of cash flow, and it is presented using the direct method, is the following information considered for inclusion:

- a. For cash flows from operating activities (cash flows from operating activities should include the fund's investing activities) (*common practice*)

- | | | | |
|--|-------|-------|-------|
| i. interest and dividends received? | _____ | _____ | _____ |
| ii. operating expenses paid? | _____ | _____ | _____ |
| iii. purchases of long-term investments (at cost)? | _____ | _____ | _____ |
| iv. sales of long-term investments (proceeds)? | _____ | _____ | _____ |
| v. net sales or purchases of short-term investments? | _____ | _____ | _____ |
| vi. cash flows for other types of investing activities related to changes in margin accounts and collateral status, such as written options, financial futures contracts, securities lending and so forth? | _____ | _____ | _____ |
| [AAG-INV 7.95] | | | |

- b. For cash flows from financing activities (*common practice*)

- | | | | |
|--|-------|-------|-------|
| i. issuance and redemption of fund shares, including both common and preferred shares (excluding reinvestment of dividends and distributions)? | _____ | _____ | _____ |
| ii. proceeds from and repayments of debt? | _____ | _____ | _____ |
| iii. dividends and distributions to shareholders (not including stock or reinvested dividends and distributions)? | _____ | _____ | _____ |
| iv. bank overdrafts? | _____ | _____ | _____ |
| [AAG-INV 7.96] | | | |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<hr/> Note: As discussed in FASB ASC 230-10-45-28, entities that choose not to provide information about major classes of operating cash receipts and payments by the direct method should determine and report the same amount for net cash flow from operating activities indirectly by adjusting the net increase or decrease in net assets from operating activities to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). [FASB ASC 230-10-45-28] <hr/>			
2. Does the reconciliation of net cash provided by or used for operating activities to net increase or decrease in net assets from operating activities include the following (<i>common practice</i>):			
a. Changes in noninvestment asset and liability accounts?	_____	_____	_____
b. Noncash income and expense items?	_____	_____	_____
c. Realized and unrealized gains and losses on investment and foreign currency transactions? [AAG-INV 7.97]	_____	_____	_____
3. Are the effects of any foreign exchange fluctuations on cash balances reported as a separate part of the reconciliation of the change in cash and cash equivalents during the period? [FASB ASC 830-230-45-1]	_____	_____	_____
4. Is information about noncash investing and financing activities, such as reinvestments of dividends and distributions, disclosed? [FASB ASC 946-230-55-1]	_____	_____	_____

VII. Financial Highlights

1. Are financial highlights presented either as a separate schedule or within the notes to the financial statements for each class of common shares outstanding? [FASB ASC 946-205-50-1]	_____	_____	_____
2. Per-Share Amounts			
a. Are per-share amounts presented based on a share outstanding throughout each period presented? [FASB ASC 946-205-50-7]	_____	_____	_____
b. Does the financial highlights table disclose per-share information that is consistent with the statement of changes in net assets? [FASB ASC 946-20-50-8]	_____	_____	_____
3. For investment companies with multiple classes of shares, has consideration been given to presenting financial highlights only for those classes of shares that are included in reports to such shareholders? [FASB ASC 946-205-50-2]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. In such cases, does the investment company include appropriate disclosures related to all classes so as to ensure that the financial statements are complete (for example, detail of capital share activity in the statement of changes in net assets or notes to financial statements)? [FASB ASC 946-205-50-2]	_____	_____	_____
5. For nonregistered investment partnerships, is per share data disclosed for all common classes in general-purpose financial statements (it is permissible for financial highlights to be presented only for those classes of shares that are included in reports to those classes)? [FASB ASC 946-205-50-3]	_____	_____	_____
<p>Note: As stated by FASB ASC 946-205-50-4, only the classes related to the nonmanaging investors (that is, classes of investors that do not consist exclusively of managing investor interests) are considered to be the common interests requiring financial highlight disclosure.</p> <p>FASB ASC 946-205-50-5 notes that if a fund is not unitized, only investment returns (either total return of internal rate of return) and net investment income and expense ratios should be disclosed as indicated in paragraphs 10–25 of FASB ASC 946-205-50.</p>			
6. For nonregistered investment partnerships, when disclosing financial highlights, are the terms <i>classes</i> , <i>units</i> , and <i>theoretical investments</i> interpreted as required in the definition of <i>nonregistered investment partnerships—financial highlights</i> in the FASB ASC glossary? [FASB ASC glossary]	_____	_____	_____
7. Is the following per share information presented for registered investment companies and investment companies that compute unitized net asset value (the information in 7(b)-(g) is not required for separate accounts that represent an ownership interest in the underlying separate account portfolios or mutual funds):			
a. Net asset value at the beginning of the period?	_____	_____	_____
b. Per share net investment income or loss (other methods, such as dividing net investment income by the average or weighted average number of shares outstanding during the period, are acceptable)?	_____	_____	_____
c. Realized and unrealized gains and losses per share, and if applicable, the reasons why the amount in this caption does not agree with the change in aggregate gains and losses for the period?	_____	_____	_____
d. Total from investment operations (the sum of net investment income or loss and realized and unrealized gain or loss)?	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
e.	Distributions to shareholders as a single line item, except that tax return of capital distributions is disclosed separately (details of distributions should conform to those shown in the statement of changes in net assets)?	_____	_____	_____
f.	Purchase premiums, redemption fees, and other capital items?	_____	_____	_____
g.	Payments by affiliates?	_____	_____	_____
h.	Net asset value at the end of the period? [FASB ASC 946-205-50-7]	_____	_____	_____
8.	For nonregistered investment partnerships that compute unitized net asset value			
a.	is information for each reporting share class related to nonmanaging investors disclosed?	_____	_____	_____
b.	is the information disclosed for each major category affecting net asset value per share (as shown in the statement of operations and statement of changes in net assets of the fund)?	_____	_____	_____
c.	are caption descriptions in the per share data the same captions used in the statement of operations and statement of changes in net assets? [FASB ASC 946-205-50 par. 7–8]	_____	_____	_____
9.	Ratios			
a.	Are the ratios of expenses and net investment income to average net assets generally annualized for periods less than a year? [FASB ASC 946-205-50-10]	_____	_____	_____
b.	Is the ratio of expenses to average net assets increased by brokerage services and expense offset arrangements?	_____	_____	_____
c.	For nonregistered investment partnerships, when determining expense and net investment income ratios, is average net asset calculated by using the fund's (or class's) weighted-average net assets as measured at each accounting period or periodic valuation, adjusting for capital contributions or withdrawals from the fund occurring between accounting periods or valuations?	_____	_____	_____
d.	For nonregistered investment partnerships, are the expense and net investment income ratios calculated based on the expenses allocated to each common or investor class before the effects of any incentive allocation?	_____	_____	_____
e.	For nonregistered investment partnerships, is adequate disclosure made to indicate that the net investment income ratio does not reflect the effects of any incentive allocation?	_____	_____	_____

Investment Companies

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>f.</i>	For nonregistered investment partnerships, are expenses related to the total return of the fund, such as incentive fees, and nonrecurring expenses, such as organizational costs, not annualized when determining the expense ratio?	_____	_____	_____
<i>g.</i>	For nonregistered investment partnerships, is disclosure made of the expenses that have not been annualized when determining the expense ratio?	_____	_____	_____
<i>h.</i>	Does the determination of expenses for computing these ratios follow the presentation of expenses in the fund's statement of operations?	_____	_____	_____
<i>i.</i>	If the manager's or general partner's incentive is structured as a fee rather than an allocation of profits, is the incentive fee factored into the computation of an expense ratio?	_____	_____	_____
<i>j.</i>	Because an incentive allocation of profits is not presented as an expense, was it not considered part of the expense ratio?	_____	_____	_____
<i>k.</i>	For nonregistered investment partnerships, are all incentives reflected in the disclosure of financial highlights, to avoid potentially significant inconsistencies in ratio presentations based solely on the structuring of incentives as fees or allocations?	_____	_____	_____
<i>l.</i>	For nonregistered investment partnerships, for the expense ratio, is disclosure made of the effect of any agreement to waive or reimburse fees and expenses to each reporting class as a whole, as described in FASB ASC 946-20-50-7, and of expense offsets, as described in paragraphs 3 and 5 of FASB ASC 946-20-45?	_____	_____	_____
<i>m.</i>	For nonregistered investment partnerships, because ratios are calculated for each common class taken as a whole, do the financial statements disclose that an individual investor's ratio may vary from those ratios? [FASB ASC 946-205-50 par. 10–15]	_____	_____	_____
10.	For investment companies that obtain capital commitments from investors and periodically call capital under those commitments to make investments (principally limited-life, non-registered investment partnerships), is the total committed capital of the partnership (including general partner), the year of formation of the entity and the ratio of total contributed capital to total committed capital disclosed in the financial highlights or in a note to the financial statements? [FASB ASC 946-205-50-25]	_____	_____	_____
<i>Fund-of-Funds</i>				
11.	For funds-of-funds, are the expense and net investment income ratios computed using the expenses in the fund's statement of operations (typically at the fund-of-funds level only)? [FASB ASC 946-205-50-16]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. For funds-of-funds, is adequate disclosure made so that it is clear to users that the expense and net investment income ratios do not reflect the funds-of-funds' proportionate share of income and expenses of the underlying investee funds? [FASB ASC 946-205-50-16]	_____	_____	_____
13. In a master feeder structure, does the feeder include its proportionate share of the income and expenses of the master when computing the ratios at the feeder level? [FASB ASC 946-205-50-17]	_____	_____	_____
14. In a master feeder structure, if an incentive is levied as an allocation at the master level, does the feeder present its share of the incentive allocation as a separate line item in the statement of operations? [FASB ASC 946-205-50-17]	_____	_____	_____
15. Total Return			
a. Is the total return presented, in the financial highlights, for all investment companies?	_____	_____	_____
b. For interim periods, does the disclosure include whether or not total return is annualized? [FASB ASC 946-205-50-18]	_____	_____	_____
16. For nonregistered investment companies organized in a manner using unitized net asset value, is total return computed based on the change in the net asset value per share during the period, and assuming that all dividends are reinvested? [FASB ASC 946-205-50-19]	_____	_____	_____
17. For investment companies not using unitized net asset value, is total return computed based on the change in value during the period of a theoretical investment made at the beginning of the period? [FASB ASC 946-205-50-20]	_____	_____	_____
18. Because incentive allocations or fees may vary among investors within a class, is total return for reporting classes that is subject to an incentive allocation or fee reported before and after the incentive allocation or fee for each reporting class taken as a whole? [FASB ASC 946-205-50-22]	_____	_____	_____
19. For investment companies that by the terms of their offering documents (1) have limited lives, (2) do not continuously raise capital and are not required to redeem their interests upon investor request, (3) have as a predominant operating strategy the return of the proceeds from disposition of investments to investors, (4) have limited opportunities, if any, for investors to withdraw prior to termination of the entity, and (5) do not routinely acquire (directly or indirectly) as part of their investment strategy market-traded securities and derivatives			

Investment Companies

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
a.	is the IRR since inception of the investment company's cash flows and ending net assets at the end of the period (residual values) as presented in the financial statements, net of all incentive allocations or fees, to each investor class, as of the beginning and end of the period, disclosed?	_____	_____	_____
b.	does a footnote to the financial highlights disclose that the IRR is net of all incentives since inception of the investment?	_____	_____	_____
c.	are all significant assumptions with respect to the IRR since inception disclosed in the footnotes to the financial highlights? [FASB ASC 946-205-50 par. 23–24]	_____	_____	_____
Note: AAG-INV paragraphs 7.129–.131 provide illustrative examples for calculating and disclosing certain financial highlights by nonregistered investment partnerships.				
20.	Does the information filed on Forms N-1A and N-2 for registrants include			
a.	net assets, end of period?	_____	_____	_____
b.	portfolio turnover rate?	_____	_____	_____
c.	if the investment company filing on Form N-2 has debt outstanding, the average amount of borrowings outstanding during the period, the weighted average number of the fund's shares outstanding during the period, and the average amount of debt per share during the period? [Forms N-1A and N-2]	_____	_____	_____
21.	Is the effect on total return of payments by affiliates related to investment losses, as described in FASB ASC 946-20-50-2, as well as any gains or losses on investments not meeting investment guidelines of the fund, quantified and disclosed in the financial highlights in a manner similar to disclosure of the effect of voluntary waivers of fees and expenses on expense ratios? [FASB ASC 946-20-50-2]	_____	_____	_____
22.	Is the effect of only voluntary waivers on the expense ratio disclosed, either as the basis point effect on the ratio or as the gross expense ratio, in a note to or as part of the financial highlights? [FASB ASC 946-20-50-7]	_____	_____	_____
23.	Is the expense ratio in the financial highlights shown net of voluntary and involuntary waivers? [FASB ASC 946-20-50-7]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
24. For brokerage service arrangements:			
a. If the investment company has a brokerage service arrangement with a broker-dealer or an affiliate of a broker-dealer under which the broker-dealer (or its affiliate), in connection with the investment company's brokerage transactions directed to the broker-dealer, provides or pays for services to the investment company (other than brokerage and research services as those terms are used in Section 28(e) of the Securities Exchange Act of 1934), does the expense ratio in the financial highlights include the amount that would have been incurred by the investment company for such services had it paid for the services directly in an arms-length transaction?	_____	_____	_____
c. Are such amounts also shown as a corresponding reduction in total expenses, captioned as fees paid indirectly? [FASB ASC 946-20-05-9; FASB ASC 946-20-45-3]	_____	_____	_____
25. Are expense offset arrangements, under which a third party explicitly reduces its fees by a specified or readily ascertainable amount for services provided to the investment company in exchange for use of the investment company's assets, presented in the expense ratio in the financial highlights in the same manner as brokerage service arrangements? [FASB ASC 946-20-45-5]	_____	_____	_____
26. When presenting financial highlights for separate accounts			
a. for separate accounts with more than two levels of contract charges or net unit values per subaccount, has consideration been given to presenting the required financial highlights for contract expense levels that had units issued or outstanding during the reporting period (including number of units, unit fair value, net assets, expense ratio, investment income ratio, and total return), for either of the following:			
i. Each contract expense level that results in a distinct net unit value and for which units were issued or outstanding during each reporting period?	_____	_____	_____
ii. The range of the lowest and highest level of expense ratio and the related total return and unit fair values during each reporting period?	_____	_____	_____
b. does the calculation of the ranges for the total return ratio and unit fair values correspond to the groupings that produced the lowest and highest expense ratios?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. does the financial highlights table in the separate account's financial statements state clearly that the expense ratio considers only the expenses borne directly by the separate account and excludes expenses incurred directly by the underlying funds or charged through the redemption of units?	_____	_____	_____
d. if the ranges of expense ratios, total returns, and unit fair values are presented, does the insurance entity disclose instances in which individual contract values do not fall within the ranges presented?	_____	_____	_____
e. does the expense disclosure also include ranges of all fees that are charged by the separate account and a description of those fees, including whether they are assessed as direct reductions in unit values or through the redemption of units for all policies contained within the separate account? [FASB ASC 946-205-50 par. 31–34]	_____	_____	_____

VIII. Fully Benefit-Responsive Investment Contract Disclosures

1. Does the investment company disclose in connection with fully benefit-responsive investment contracts, in the aggregate			
a. a description of the nature of those investment contracts?	_____	_____	_____
b. how they operate?	_____	_____	_____
c. the methodology for calculating the interest crediting rate, including the key factors that could influence future average interest crediting rates, the basis for and frequency of determining interest crediting rate resets, and any minimum interest crediting rate under the terms of the contracts?	_____	_____	_____
d. an explanation of the relationship between future interest crediting rates and the amount reported on the statement of assets and liabilities representing the adjustment for the portion of net assets attributable to fully benefit-responsive investment contracts from fair value to contract value?	_____	_____	_____
e. a reconciliation between the beginning and ending balance of the amount presented on the statement of assets and liabilities that represents the difference between net assets reflecting all investments at fair value and net assets for each period in which a statement of changes in net assets is presented, that includes			
i. the change in the difference between the fair value and contract value of all fully benefit-responsive investment contracts?	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
	ii. the increase or decrease due to changes in the fully benefit-responsive status of the fund's investment contracts?	_____	_____	_____
f.	the average yield earned by the entire fund (which may differ from the interest rate credited to participants in the fund) for each period for which a statement of assets and liabilities is presented?	_____	_____	_____
	i. Is this average yield calculated by dividing the annualized earnings of all investments in the fund (irrespective of the interest rate credited to participants in the fund) by the fair value of all investments in the fund?	_____	_____	_____
g.	the average yield earned by the entire fund with an adjustment to reflect the actual interest rate credited to participants in the fund for each period for which a statement of assets and liabilities is presented?	_____	_____	_____
	i. Is this average yield calculated by dividing the annualized earnings credited to participants in the fund (irrespective of the actual earnings of the investments in the fund) by the fair value of all investments in the fund?	_____	_____	_____
h.	two sensitivity analyses:			
	i. The weighted average interest crediting rate (that is, the contract value yield) as of the date of the latest statement of assets and liabilities and the effect on this weighted average interest crediting rate, calculated as of the date of the latest statement of assets and liabilities and the end of the next four quarterly periods, under two or more scenarios where there is an immediate hypothetical increase or decrease in market yields, with no change to the duration of the underlying investment portfolio and no contributions or withdrawals? (<i>Note:</i> Those scenarios should include, at a minimum, immediate hypothetical increases and decreases in market yields equal to one-quarter and one-half of the current yield.)	_____	_____	_____
	ii. The effect on the weighted average interest crediting rate calculated as of the date of the latest statement of assets and liabilities and the next four quarterly reset dates, under two or more scenarios where there are the same immediate hypothetical changes in market yields in the first analysis, combined with an immediate, one-time, hypothetical 10 percent decrease in the net assets of the fund due to participant transfers, with no change to the duration of the portfolio?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
i. a description of the events that limit the ability of the fund to transact at contract value with the issuer (for example, premature termination of the contracts by the fund, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives), including a statement as to whether the occurrence of those events that would limit the fund's ability to transact at contract value with the participants in the fund is probable or not probable?	_____	_____	_____
j. a description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the fund and settle at an amount different from contract value? [FASB ASC 946-210-50-14]	_____	_____	_____

IX. Other Disclosure Requirements

- | | | | |
|--|-------|-------|-------|
| 1. (<i>For issuers</i>) Are the amounts and expiration dates of capital loss carryforwards and the amounts of any post-October capital and currency loss deferrals (see footnote 30 to AAG-INV paragraph 7.79) disclosed, if significant?
[FASB ASC 946-740-55-2] | _____ | _____ | _____ |
| 2. Is a provision for deferred income taxes on unrealized appreciation charged against the unrealized gains account pursuant to FASB ASC 946-740-35-1 disclosed as such in the statement of operations?
[FASB ASC 946-740-50-1] | _____ | _____ | _____ |
| 3. If the fund is not subject to income taxes, is consideration given to disclosing the net difference between the tax bases and the reported amounts of the fund's assets and liabilities (<i>common practice</i>)?
[AAG-INV 7.111] | _____ | _____ | _____ |

Note: In December 2007, FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations*, which is codified in FASB ASC 810, *Consolidation*. The objective of this guidance is to improve the relevance and representative faithfulness of an entity's financial statements when reporting a business combination. This guidance establishes the following requirements:

- Use the acquisition method of accounting for all business combinations
- Recognize and measure goodwill acquired in a business combination, or from a bargain purchase
- Determine what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the combination.

(continued)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>This guidance defines the key terms associated with a business combination, for example the term <i>acquiree</i>. It also requires entities to record assets acquired and liabilities assumed as a result of a business combination at fair value, as defined by FASB ASC 820. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.</p> <p>If the entity has adopted FASB Statement No. 141(R), questions 5–6 are not applicable and the reader is encouraged to refer to section A1 of the September 2009 <i>Checklists and Illustrative Financial Statements: Corporations</i>.</p>			
4. For tax-free business combinations of investment companies			
a. is the amount of unrealized appreciation or depreciation and the amount of undistributed investment company income of the acquired fund at the date of acquisition considered for disclosure, if significant (<i>common practice</i>)? [AAG-INV 8.40]	_____	_____	_____
b. are the costs of purchases and proceeds from sales of portfolio securities that occurred in the effort to realign the fund's portfolio excluded in the portfolio turnover calculation and the amount of excluded purchases and sales disclosed in a note? [Form N1-A, Item 8, Instruction 4(d)(iii)]	_____	_____	_____
5. For all business combinations (<i>common practice</i>)			
a. is a summary of the essential elements of the combination considered for disclosure (effective date, number and fair value of shares issued by the surviving company, the exchange ratio, tax status, and tax attributes)?	_____	_____	_____
b. are separate and combined aggregate net assets considered for presentation as of the acquisition date? [AAG-INV 8.43]	_____	_____	_____
6. Are additional disclosures made as required by Rule 4-08(m) of Regulation S-X if the carrying amounts of repurchase or reverse repurchase agreements that exceed 10 percent of total assets or the amount at risk (as defined) under such agreements exceeds 10 percent of net asset value? [Reg. S-X Rule 4-08(m)]	_____	_____	_____
7. Are additional disclosures made in accordance with Reg. S-X Rule 6-06 pertaining to special provisions applicable to the balance sheets of issuers of face-amount certificates? [Reg. S-X Rule 6-06]	_____	_____	_____
8. Are additional disclosures made in accordance with Reg. S-X Rule 6-08 pertaining to special provisions applicable to the statements of operations of issuers of face-amount certificates? [Reg. S-X Rule 6-08]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>Notes: As explained by FASB ASC 946-810-45-2 and FASB ASC 946-323-45-1, except as discussed in the next paragraph, consolidation or use of the equity method of accounting by an investment company of a noninvestment company investee is not appropriate. As stated by FASB ASC 323-10-15-4, FASB ASC 323, <i>Investments—Equity Method and Joint Ventures</i>, does not apply to investments in common stock held by investment companies registered under the Investment Company Act of 1940 or investment companies that would be included under the act (including small business investment companies) except that the number of stockholders is limited and the securities are not offered publicly. Also, as stated by FASB ASC 810-10-15-12, investments accounted for at fair value in accordance with the specialized guidance in accordance with FASB ASC 946 are not subject to consolidation according to the requirements of FASB ASC 810. Lastly, Regulation S-X, Rule 6-03(c)(1) also precludes consolidation by a registered investment company of any entity other than another investment company.</p> <p>FASB ASC 946-810-45-3 and FASB ASC 946-323-45-2 further note that an exception to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company, for example, an investment adviser or transfer agent. In those cases, the purpose of the investment is to provide services to the investment company rather than to realize a gain on the sale of the investment. If an individual investment company holds a controlling interest in such an operating company, consolidation is appropriate. If an investment company holds a noncontrolling ownership interest in such an operating company that otherwise qualifies for use of the equity method of accounting, the investment company should use the equity method of accounting for that investment, rather than the fair value of the investee's assets and liabilities.</p>			
9. For unit investment trusts, upon formation of the trust the sponsor may realize a profit or loss on the sale of the portfolio to the trust equal to the difference between the aggregate cost of the portfolio to the sponsor and the aggregate valuation on the date of deposit. Is consideration given to including a note to the initial schedule of investments that discloses the aggregate cost of the securities to the trust and the related net gain or loss to the sponsor (<i>common practice</i>)? [AAG-INV 9.07]	_____	_____	_____
10. For foreign currency transactions			
a. is the ongoing revaluation of investments and receivables or payables representing unsettled foreign currency transactions classified as unrealized foreign currency gain or loss?	_____	_____	_____
b. when there is an actual cash flow (settlement), is a realized foreign currency gain or loss recorded? [FASB ASC 946-830-45-1]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. For each period in which a distributor recognizes revenue as the result of receiving cash from a third party for the rights to 12b-1 fees and contingent-deferred sales fees, did the distributor disclose the amount of revenue recognized and the related amount of deferred costs that have been expensed? [FASB ASC 946-605-50-1]	_____	_____	_____

X. Interim Financial Statements

1. Are semiannual reports to shareholders for registered investment companies complete, based on U.S. GAAP, and do they conform to principles used in preparing annual financial statements? [1940 Act Rule 30e-1]	_____	_____	_____
2. Does the statement of changes in net assets for registered investment companies present information on the latest interim period and the preceding fiscal year? [Form N-1A]	_____	_____	_____
3. Are financial highlights presented for the semiannual period and generally the preceding five fiscal years? [Form N-1A]	_____	_____	_____
4. If management of a fund determines that a tax return of capital is likely to occur for the fund's fiscal year, although the exact amount may not be estimable, is that fact disclosed in a note to the interim financial statements? [FASB ASC 946-20-50-10]	_____	_____	_____
5. Is unaudited interim financial data marked accordingly (<i>common practice</i>)? [AAG-INV 7.115]	_____	_____	_____
6. Is data summarized in condensed form also labeled (<i>common practice</i>)? [AAG-INV 7.115]	_____	_____	_____
7. If the auditor is named or identified in interim reports on which he or she has performed no audit or review procedures, has the auditor insisted that the reference be deleted or that a notation be included that the auditor does not express an opinion (<i>common practice</i>)? [AAG-INV 7.115]	_____	_____	_____

Note: Form N-SAR is the semiannual and annual report filed with the SEC by all registered management investment companies, small business investment companies, and unit investment trusts. A registered investment company files its annual and semiannual shareholder reports together with the certifications of principal executive and financial officers required by Rule 30a-2 of the Investment Company Act of 1940 on Form N-CSR.

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
XI. Funds With Multiple Classes of Shares or Master-Feeder Structures				
<i>Note:</i> Also consider questions 11–14 in the “Financial Highlights” section of this checklist.				
1.	For multiple-class funds			
a.	in the statement of assets and liabilities, is the composition of net assets reported in total and net asset value per share and shares outstanding reported for each class? [FASB ASC 946-210-45-4]	_____	_____	_____
b.	in the statement of operations or in the notes to the financial statements, are class-specific expenses for each class reported or disclosed? [FASB ASC 946-225-45-9]	_____	_____	_____
c.	in the statement of changes in net assets, are dividends and distributions paid to shareholders and capital share transactions for each class presented or disclosed in the notes to the financial statements? [FASB ASC 946-205-45-4(a)]	_____	_____	_____
d.	do the notes to the financial statements			
i.	describe each class of shares, including sales charges, shareholder servicing fees, and distribution fees?	_____	_____	_____
ii.	disclose the method used to allocate income and expenses, and realized and unrealized capital gains and losses, to each class?	_____	_____	_____
iii.	describe fee arrangements for class-specific distribution plans and for any other class-level expenses paid to affiliates?	_____	_____	_____
iv.	disclose capital share transactions (if not disclosed separately in the statement of changes in net assets) for each class?	_____	_____	_____
v.	disclose total sales charges paid to any affiliates for each class? [FASB ASC 946-235-50-2]	_____	_____	_____
e.	are financial highlights, including total return, presented by class, except for portfolio turnover, which is calculated at the fund level? <i>Note:</i> Portfolio turnover is required for registered investment companies only. [FASB ASC 946-205-50-27]	_____	_____	_____

Note: As noted by FASB ASC 946-205-50-27, for multiple-class funds, the financial highlights for any class for which the shareholders are precluded from investing may be omitted.

(continued)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<hr/>			
As discussed in AAG-INV paragraph 5.38, under current SEC policies, the annual and semiannual reports for feeder funds should contain two sets of financial statements, one for the master fund and the other for the specific feeder fund.			
<hr/>			
2. For master-feeder funds			
a. in the statement of assets and liabilities			
i. is an investment in the master fund shown in each feeder fund's statement of assets and liabilities, which is the sole or principal investment of the feeder fund?	_____	_____	_____
ii. is the total of all feeder funds' investments in the master fund equal to the total net assets of the master fund?	_____	_____	_____
iii. is the net asset value per share, total shares outstanding, and the components of net assets reported? [FASB ASC 946-210-45-6]	_____	_____	_____
iv. is the portfolio of investments included only in the master fund's financial statements? [FASB ASC 946-210-45-5]	_____	_____	_____
b. in the statement of operations			
i. are the details of the feeder fund's allocated share of net investment income from the master fund reported? [FASB ASC 946-225-45-11]	_____	_____	_____
ii. is the feeder's allocated share of the master fund's realized and unrealized gains and losses reported separately?	_____	_____	_____
iii. does the total of all feeders' income, expense, and realized and unrealized gain or loss components agree to the corresponding totals of the master fund?	_____	_____	_____
iv. do the feeder funds disclose their fund-specific expenses?	_____	_____	_____
v. are fee waivers or reimbursements at the feeder-fund level reported? [FASB ASC 946-225-45-12]	_____	_____	_____
vi. for master funds, is the standard reporting format for investment companies with simple capital structures used? [FASB ASC 946-225-45-10]	_____	_____	_____
c. in the statement of changes in net assets			
i. for feeder funds, is the standard reporting format for investment companies with simple capital structures used?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ii. do master funds report capital transactions from or to feeder funds as contributions and withdrawals, respectively? [FASB ASC 946-205-45-4(b)]	_____	_____	_____

Practice Tips

As discussed in FASB ASC 946-235-50-3, information concerning the purchases and sales of investments and gross unrealized appreciation or depreciation of investments on a tax basis is not applicable to the feeder's financial statements.

d.	do the notes to the financial statements of each feeder fund include all of the following:			
i.	A general description of the master and feeder structure?	_____	_____	_____
ii.	The feeder's percentage ownership share of the particular master fund at the reporting date?	_____	_____	_____
iii.	A statement that the feeder invests all of its investable assets in a corresponding open-end management investment company having the same investment objectives as the feeder?	_____	_____	_____
iv.	A reference to the financial statements of the master fund, including the portfolio of investments?	_____	_____	_____
v.	disclosure or reference to the accounting policies of the master fund that affect the feeders? [FASB ASC 946-235-50-3]	_____	_____	_____
e.	do the financial highlights			
i.	include expenses of both the feeder and the master fund in the feeder fund's ratios of expenses and net investment income to average net assets?	_____	_____	_____
ii.	reflect balance credits earned by the master fund in the feeder fund ratios as if they had been earned by the feeder fund directly? [FASB ASC 946-205-50-28]	_____	_____	_____
iii.	to the extent the financial highlights table conforms to the instructions of Form N-1A, report the portfolio turnover rate experienced by the master (<i>common practice</i>)? (The financial highlights of feeder funds that are registered investment companies generally should comply with the same requirements as for registered investment companies not organized in a master-feeder structure.) [AAG-INV 5.48]	_____	_____	_____

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
f.	does the master fund financial highlights section			
i.	include the total return, ratios of expenses, and net investment income to average net assets if the master fund is organized as a partnership?	_____	_____	_____
ii.	include the portfolio turnover rate if the master fund is organized as a partnership? <i>Note:</i> Portfolio turnover is required for registered investment companies only.	_____	_____	_____
iii.	report normal per share data if the master fund is not organized as a partnership? [FASB ASC 946-205-50-29]	_____	_____	_____
3.	For funds of funds			
a.	in the statement of assets and liabilities			
i.	have additional required disclosures been considered for funds that hold a mixture of investments in other investment companies and direct investments in securities?	_____	_____	_____
ii.	has consideration been given to whether an investment in a single underlying fund is so significant to the fund of funds as to make the presentation of financial statements in a manner similar to a master-feeder fund more appropriate? [FASB ASC 946-210-45-7]	_____	_____	_____
b.	in the statement of operations			
i.	does income represent the net earnings received from investee funds? [FASB ASC 946-225-45-13]	_____	_____	_____
ii.	are agreements for investee funds to assume certain of the investor fund expenses disclosed in the notes? [FASB ASC 946-225-45-14]	_____	_____	_____
iii.	when investing in registered investment companies, are distributions received from long-term capital gains reported as realized gains together with gains realized on disposition of shares of investee companies? [FASB ASC 946-225-45-15]	_____	_____	_____
c.	in the financial highlights			
i.	are net investment income and expense ratios computed based upon amounts reported in the statement of operations?	_____	_____	_____
ii.	is portfolio turnover measured based on the turnover of investments made by the reporting fund in investee funds, not looking through the investee funds to their portfolio activity? [FASB ASC 946-205-50-30]	_____	_____	_____

Investment Companies

		<u>Yes</u>	<u>No</u>	<u>N/A</u>
d.	do the notes to the financial statements include			
i.	a general description of the fund of funds structure?	_____	_____	_____
ii.	disclosure of valuation policy-values, generally based on information reported by investee funds? [FASB ASC 946-235-50-5]	_____	_____	_____
iii.	has consideration been given to whether, and to what extent, disclosure of the investee funds' investment policies is appropriate? [FASB ASC 946-235-50-4]	_____	_____	_____
4.	Have significant transactions of the master fund been considered for disclosure in the feeder fund's financial statements (<i>common practice</i>)? [AAG-INV 5.74]	_____	_____	_____

FSP Section 12,200

Auditor's Reports and Illustrative Financial Statements

.01 The following illustrative auditor's reports and financial statements demonstrate one form of currently acceptable practice. The illustrative financial statements in this section are principally reproduced from the AICPA Audit and Accounting Guide *Investment Companies* with conforming changes as of May 1, 2009 (AAG-INV). The illustrative financial statements are intended to provide sample financial statement formats and disclosures, and are not intended to provide all sample financial statement formats and disclosures, or all of the disclosures covered in the financial statement checklist. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances.

.02 The illustrative financial statements presented include those of a registered investment company. Also presented are the illustrative financial statements for management investment companies that have multiple classes of shares or master-feeder structures, as illustrated in chapter 5 of AAG-INV; the illustrative financial statements for a unit investment trust as illustrated in chapter 9 of AAG-INV; and the illustrative financial statements for variable annuity separate accounts registered as unit investment trusts as illustrated in chapter 10 of AAG-INV. These sets of financial statements include certain, but not all, disclosures required by Securities and Exchange Commission (SEC) regulation in addition to requirements under accounting principles generally accepted in the United States (U.S. GAAP). From time to time, the SEC may administratively require additional disclosures in the financial statements. Furthermore, the illustrative financial statements do not include all disclosures and presentation items promulgated.

Note: The illustrative financial statements and footnote disclosures included in this checklist have been updated to reflect Financial Accounting Standards Board (FASB) *Accounting Standards Codification*[™] (ASC). However, in FASB's Notice to Constituents, FASB (or they) suggests the use of plain English in financial statement footnotes to describe broad FASB ASC Topic references. They suggest a reference similar to "as required by the Derivatives and Hedging Topic of FASB *Accounting Standards Codification*." Companies might consider revising their financial statement references to reflect this plain English referencing, rather than the use of specific FASB ASC references. We have provided these detailed references in the 2009 editions as a learning tool to familiarize constituents with FASB ASC.

<p>The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Disclosures included in the illustrative financial statements presented are not intended to be comprehensive and are not intended to establish preferences among alternative disclosures.</p>
--

.03 The following form of auditor's report may be used to express an unqualified opinion on the financial statements of a nonregistered investment company. See AAG-INV paragraph 11.02 for further discussion about the following form of report:

Independent Auditor's Report

To the Shareholders and
Board of Directors of
XYZ Investment Company

We have audited the accompanying statement of assets and liabilities of XYZ Investment Company (the Company), including the schedule of investments, as of December 31, 20X8, and the related statements of operations, cash flows and changes in net assets, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of XYZ Investment Company as of December 31, 20X8, the results of its operations, its cash flows, changes in its net assets, and its financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor
Anytown, USA
February 21, 20X9

.04 The following form of auditor's report may be used to express an unqualified opinion on the financial statements of a registered investment company. See AAG-INV paragraph 11.09 for further discussion about the following form of report:

Report of Independent Registered Public Accounting Firm

To the Shareholders and
Board of Directors of
XYZ Investment Company

We have audited the accompanying statement of assets and liabilities of XYZ Investment Company, including the schedule of investments, as of December 31, 20X8, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 20X8, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of XYZ Investment Company as of December 31, 20X8, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor
Anytown, USA
January 21, 20X9

Illustrative Financial Statements for a Registered Investment Company

XYZ Investment Company Statement of Assets and Liabilities December 31, 20X4

Assets	
Investments in securities, at fair value (cost \$19,292,000)—including \$570,000 of securities loaned (note 8) ¹	\$21,721,000
Cash denominated in foreign currencies (cost \$141,000)	139,000
Cash	60,000
Deposits with brokers for securities sold short	1,555,000
Receivables	
Dividends and interest	46,000
Investment securities sold	24,000
Capital shares sold	54,000
Unrealized gain on foreign currency forward exchange contract (note 3)	419,000
Other assets	26,000
Total assets	<u>24,044,000</u>
Liabilities	
Call options written, at fair value (premiums received \$110,000)	230,000
Securities sold short, at fair value (proceeds \$1,555,000)	1,673,000
Demand loan payable to bank (note 5)	2,000,000
Payable upon return of securities loaned (note 8)	620,000
Unrealized loss on foreign currency exchange contract (note 8)	108,000
Unrealized loss on swap contract (note 3)	21,000
Due to broker—variation margin (note 3)	10,000
<i>Payables</i>	
Investment securities purchased	52,000
Capital shares reacquired	8,000
Other	4,000
Accrued expenses	8,000
Distribution payable	137,000
Total liabilities	<u>4,871,000</u>
Net assets	<u><u>\$19,173,000</u></u>

(continued)

¹ Investments in securities include securities purchased with cash proceeds from securities loans.

When cash is received as collateral in secured borrowings, the cash received should be recognized as the investment company's asset along with the obligation to return the cash. If the investment company makes investments with the cash, even if made by agents or in pools with other securities lenders, the investment company should reflect the investments as part of its holdings in the schedule of investments and should footnote any restrictions associated with the investment because of the collateral arrangements.

With regard to collateral received in the form of securities in secured borrowings, if the securities received may be sold or replighted, the investment company should account for those securities in the same way as it would account for cash received. That is, the investment company should record the securities received as the investment company's asset along with the obligation to return the securities. However, if the investment company does not have the right to sell or replight the securities received as collateral, then the investment company should not record the securities or the related liability on its books.

Analysis of Net Assets:

Net capital paid in on shares of capital stock	\$15,184,000
Distributable earnings	<u>3,989,000</u>
Net assets (equivalent to \$4.55 per share based on 4,216,000 shares of capital stock outstanding) (note 6)	<u><u>\$19,173,000</u></u>

The accompanying notes are an integral part of these financial statements.

XYZ Management Investment Company
Schedule (or Portfolio) of Investments in Securities
December 31, 20X8

[Note: Securities may be arranged by industry groupings or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the Company believes are most meaningful to users. The basis of the computation of percentages shown (which in this illustration is the ratio of the specific category of securities to the total portfolio owned) should be disclosed.]

	<i>Principal Amount or Shares</i>	<i>Fair Value</i>
Common stocks—29%		
Consumer durable goods—5%		
Allied Manufacturing Corporation ²	25,000	\$620,000
Baker Industries, Inc. ³	15,000	150,000
Consumer Goods Company	8,000	300,000
Other		16,000
		<u>1,086,000</u>
Consumer nondurable goods—16%		
Amalgamated Buggy Whips, Inc. (note 2)	10,000	3,280,000
American Company	4,000	100,000
Other		55,000
		<u>3,435,000</u>
Service industries—4%		
Service Company, Inc. ⁴	10,000	465,000
Cannon Sales ⁴	13,000	400,000
Other		4,000
		<u>869,000</u>
Other industry groupings—4%		<u>921,000</u>
[Additional industry groupings and details of the 50 largest holdings are not included in this illustration]		
Total common stocks		<u>6,311,000</u>
Convertible bonds—25%		
American Retailing Inc.—5.5% debenture due 20XX	\$500,000	525,000
Paper Airplane Corporation—6.25% debenture due 20XX	4,500,000	4,875,000
Total convertible securities		<u>5,400,000</u>
Indexed securities—10%		
American Trust Co. (principal linked to Euro yield curve)—10% due 20XX	2,000,000	2,100,000
		<u>(continued)</u>

² Portion of the security is pledged as collateral for call options written.

³ Nonincome producing security.

⁴ Portion of the security is on loan.

	<i>Principal Amount or Shares</i>	<i>Fair Value</i>
<i>Mortgage-backed securities—12%</i>		
FNMA 8% due 20XX	2,000,000	1,950,000
FNMA strip, principal only, zero coupon, due 20XX	1,000,000	<u>760,000</u>
Total mortgage-backed securities		<u>2,710,000</u>
<i>U.S. government obligations—16%</i>		
U.S. Treasury 6% notes due 20XX	500,000	490,000
U.S. Treasury 8% notes due 20XX	3,000,000	<u>2,985,000</u>
Total U.S. government obligations		<u>3,475,000</u>
<i>Short-term notes—6%</i>		
Commercial Paper, Inc., 5.5% due 2/5/X9	505,000	506,000
U.S. Treasury bills, 5.2% due 1/20/X9 ⁵	720,000	<u>719,000</u>
Total short-term notes		<u>1,225,000</u>
<i>Repurchase agreements—2%</i>		
Money Center Bank of Large City, 4%, dated 12/29/X8, due 1/3/X9, repurchase price \$500,274, collateralized by U.S. Treasury bonds	500,000	<u>500,000</u>
Total—100% (cost \$19,292,000)		<u><u>\$21,721,000</u></u>
Note—Aggregate value of segregated securities—\$372,000.		

The accompanying notes are an integral part of these financial statements.

⁵ Portion of the security is purchased with the cash proceeds from securities loans. (The investment company should also footnote any restrictions associated with the investment because of the collateral arrangements.)

Investment Companies

XYZ Investment Company
Call Options Written
December 31, 20X8

<i>Common Stocks/Expiration Date/Exercise Price</i>	<i>Shares Subject to Call</i>	<i>Fair Value</i>
Allied Manufacturing Corporation/July/25	10,000	\$50,000
Allied Manufacturing Corporation/October/30	5,000	2,500
Consumer Goods Company/September/45	7,000	177,500
Total (premiums received \$110,000) (note 3)		<u>\$230,000</u>

The accompanying notes are an integral part of these financial statements.

XYZ Investment Company
Securities Sold Short
December 31, 20X8

<i>Common Stocks</i>	<i>Shares</i>	<i>Fair Value</i>
International Widgets, Inc.	40,000	\$425,000
Paper Airplane Corporation	25,000	265,000
Amber Company	100,000	983,000
Total (proceeds \$1,555,000)		<u>\$1,673,000</u>

The accompanying notes are an integral part of these financial statements.

XYZ Management Investment Company
Statement of Net Assets
December 31, 20X8

[Note: Securities may be arranged by industry or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the Company believes will be most meaningful to users.]

	<i>Shares or Principal Amount</i>	<i>Fair Value</i>
Assets		
Investment in securities—113% of net assets		
Common stocks—33%		
Consumer durable goods—6%		
Allied Manufacturing Corporation ⁶	25,000	\$620,000
Baker Industries, Inc. ⁷	15,000	150,000
Consumer Goods Company Allied Manufacturing Corporation ⁶	8,000	300,000
Other	600	16,000
		<u>1,086,000</u>
Consumer nondurable goods—18%		
Amalgamated Buggy Whips, Inc. (note 2)	10,000	3,280,000
American Company	4,000	100,000
Other	2,000	55,000
		<u>3,435,000</u>
Service industries—4%		
Service Company, Inc. ⁸	10,000	465,000
Cannon Sales ⁸	13,000	400,000
Other	200	4,000
		<u>869,000</u>
Other industry groupings—5%		<u>921,000</u>
[Additional industry groupings and details of the fifty largest holdings are not included in this illustration.]		
Total common stocks		<u>6,311,000</u>
Convertible bonds—28%		
American Retailing Inc.—5.5% debenture due 20XX	\$500,000	525,000
Paper Airplane Corporation—6.25% debenture due 20XX	4,500,000	4,875,000
Total convertible bonds		<u>5,400,000</u>
Indexed securities—11%		
American Trust Co. (principal linked to Euro yield curve)—10% due 20XX	2,000,000	2,100,000
Mortgage-backed securities—14%		
FNMA, 8% due 20XX	2,000,000	1,950,000

(continued)

⁶ Portion of the security is pledged as collateral for call options written.

⁷ Nonincome producing security.

⁸ Portion of the security is on loan.

	<i>Shares or Principal Amount</i>	<i>Fair Value</i>
FNMA strip, principal only, zero coupon, due 20XX	1,000,000	760,000
Total mortgage-backed securities		2,710,000
<i>U.S. government obligations—18%</i>		
U.S. Treasury 6% notes due 20XX	500,000	490,000
U.S. Treasury 8% notes due 20XX	3,000,000	2,985,000
Total U.S. government obligations		3,475,000
<i>Short-term notes—6%</i>		
Commercial Paper, Inc., 5.5% due 2/5/X9	505,000	506,000
U.S. Treasury bills, 5.2% due 1/20/X9 ⁹	720,000	719,000
Total short-term notes		1,225,000
<i>Repurchase agreements—3%</i>		
Money Center Bank of Large City, 4%, dated 12/29/X8 due 1/3/X9, repurchase price \$500,274, collateralized by U.S. Treasury bonds	500,000	500,000
Total investments in securities (cost \$19,292,000)—including \$570,000 of securities loaned (note 8) ¹⁰		21,721,000
Foreign currency (cost \$141,000)		139,000
Cash		60,000
Deposits with brokers for securities sold short		1,555,000
Receivables		
Dividends and interest		46,000
Investment securities sold		24,000
Capital stock sold		54,000
Unrealized gain on foreign currency forward exchange contract (note 3)		419,000
Other assets		26,000
Total assets		24,044,000
Liabilities		
Call options written, at fair value (premiums received \$110,000)		230,000
Securities sold short, at fair value (proceeds \$1,555,000)		1,673,000
Demand loan payable to bank (note 5)		2,000,000
		(continued)

⁹ Portion of the security is purchased with the cash proceeds from securities loans. (The investment company should also footnote any restrictions associated with the investment because of the collateral arrangements.)

¹⁰ Investments in securities include securities purchased with cash proceeds from securities loans.

When cash is received as collateral in secured borrowings, the cash received should be recognized as the investment company's asset along with the obligation to return the cash. If the investment company makes investments with the cash, even if made by agents or in pools with other securities lenders, the investment company should reflect the investments as part of its holdings in the schedule of investments and should footnote any restrictions associated with the investment because of the collateral arrangements.

With regard to collateral received in the form of securities in secured borrowings, if the securities received may be sold or repledged, the investment company should account for those securities in the same way as it would account for cash received. That is, the investment company should record the securities received as the investment company's asset along with the obligation to return the securities. However, if the investment company does not have the right to sell or repledge the securities received as collateral, then the investment company should not record the securities or the related liability on its books.

	<i>Shares or Principal Amount</i>	<i>Fair Value</i>
Payable upon return of securities loaned (note 8)		620,000
Unrealized loss on foreign currency forward exchange contract (note 3)		108,000
Unrealized loss on swap contract (note 3)		21,000
Due to broker—variation margin (note 3)		10,000
<i>Payables</i>		
Investment securities purchased		52,000
Capital stock reacquired		8,000
Other		4,000
Accrued expenses		8,000
Distribution payable		137,000
Total liabilities		<u>4,871,000</u>
Net assets		<u><u>\$19,173,000</u></u>
Analysis of Net Assets:		
Net capital paid in on shares of capital stock		\$15,184,000
Distributable earnings		<u>3,989,000</u>
Net assets (equivalent to \$4.55 per share based on 4,216,000 shares of capital stock outstanding) (note 6)		<u><u>\$19,173,000</u></u>
Note—Aggregate value of segregated securities—\$372,000.		

The accompanying notes are an integral part of these financial statements.

XYZ Investment Company
Statement of Operations
Year Ended December 31, 20X8

<i>Investment income</i>		
Dividends (net of foreign withholding taxes of \$20,000)	\$742,000	
Interest	209,000	
Income from securities loaned—net	<u>50,000</u>	
Total income		\$1,001,000
<i>Expenses</i>		
Investment advisory fee	135,000	
Interest	55,000	
Professional fees (note 9)	29,000	
Custodian and transfer agent fees	16,000	
Distribution expenses (note 9)	4,000	
State and local taxes other than income taxes	15,000	
Directors' fees	12,000	
Dividends on securities sold short	<u>9,000</u>	
Total expenses		275,000
Fees paid indirectly (note 9)		(4,000)
Fees waived (note 9)		<u>(45,000)</u>
Net expenses		<u>226,000</u>
Net investment income		<u>775,000</u>
<i>Realized and unrealized gain (loss) from investments and foreign currency:</i>		
Net realized gain (loss) from—		
Investments		1,089,000
Foreign currency transactions ¹¹		<u>(44,000)</u>
		<u>1,045,000</u>
Net increase (decrease) in unrealized appreciation (depreciation) on—		
Investments		(1,647,000)
Translation of assets and liabilities in foreign currencies ¹¹		<u>353,000</u>
		<u>(1,294,000)</u>
Net realized and unrealized loss from investments and foreign currency		<u>(249,000)</u>
Net increase in net assets resulting from operations		<u><u>\$526,000</u></u>

The accompanying notes are an integral part of these financial statements.

¹¹ If separate reporting is adopted, these captions would also include foreign currency effects of realized and unrealized gains and losses on investments. If separate reporting is not adopted, such foreign currency effects would be included in the investments captions.

XYZ Investment Company
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	<u>20X8</u>	<u>20X7</u>
Increase (decrease) in net assets from operations		
Investment income—net	\$775,000	\$492,000
Net realized gain from investments and foreign currency ¹²	1,045,000	1,000,000
Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies ¹³	<u>(1,294,000)</u>	<u>1,551,000</u>
Net increase in net assets resulting from operations	526,000	3,043,000
Distributions to shareholders	(1,875,000)	(1,350,000)
Tax return of capital to shareholders	—	(66,000)
Capital share transactions (note 6)	<u>2,730,000</u>	<u>1,755,000</u>
Total increase	1,381,000	3,382,000
Net assets		
Beginning of year	<u>17,792,000</u>	<u>14,410,000</u>
End of year	<u><u>\$19,173,000</u></u>	<u><u>\$17,792,000</u></u>

The accompanying notes are an integral part of these financial statements.

¹² It is also acceptable to present each of these items as a separate line item: net realized gains from investments; net realized gains (losses) from foreign currency transactions.

¹³ It is also acceptable to present each of these items as a separate line item: unrealized appreciation on investments; unrealized appreciation on translation of assets and liabilities in foreign currencies.

XYZ Investment Company
Statement of Cash Flows
Year Ended December 31, 20X8

Increase (decrease) in cash—

Cash flows from operating activities:

Net increase in net assets from operations	\$526,000
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:	
Purchase of investment securities	(26,720,000)
Proceeds from disposition of investment securities	26,030,000
Sale of short-term investment securities, net	(921,000)
Increase in deposits with brokers for short sales	(555,000)
Increase in collateral for securities loaned	(270,000)
Increase in dividends and interest receivable	(18,000)
Decrease in receivables for securities sold	306,000
Increase in equity on foreign currency contracts	(363,000)
Increase in other assets	(2,000)
Increase in call options written	50,000
Increase in securities sold short	802,000
Increase in depreciation on swap contracts	21,000
Increase in payable upon return of securities loaned	270,000
Decrease in variation margin payable	(4,000)
Decrease in payable for securities purchased	(77,000)
Increase in accrued expenses	1,000
Unrealized appreciation on securities	1,647,000
Net realized gain from investments	(1,089,000)
Net cash used in operating activities	<u>(366,000)</u>

Cash flows from financing activities:

Decrease in loan payable	(400,000)
Proceeds from shares sold	2,143,000
Payment on shares redeemed	(450,000)
Cash distributions paid	(841,000)
Net cash provided by financing activities	<u>452,000</u>

Net increase in cash	86,000
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Cash:

Beginning balance	<u>113,000</u>
Ending balance	<u><u>\$199,000</u></u>

Supplemental disclosure of cash flow information:

Noncash financing activities not included herein consist of reinvestment of dividends and distributions of \$1,000,000.

The accompanying notes are an integral part of these financial statements.

XYZ Investment Company
Notes to Financial Statements

1. Significant Accounting Policies

XYZ Investment Company (the Company) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The investment objective of the Company is to seek a high total return consisting of both current income and realized and unrealized gains from equity and debt securities.

Security valuation. All investments in securities are recorded at their estimated fair value, as described in note 2.

Repurchase agreements. In connection with transactions in repurchase agreements, it is the Company's policy that its custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Company may be delayed or limited.

Foreign currency. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

[The following paragraphs illustrate disclosures for a fund that chooses to report the foreign currency elements of realized and unrealized gains and losses on investments.]

The Company isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Company's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, including investments in securities at fiscal period end, resulting from changes in the exchange rate.

Option writing. When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Company has realized a

gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Company. The Company as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

Security loans. The Company receives compensation in the form of fees, or it retains a portion of interest on the investment of any cash received as collateral. The Company also continues to receive interest or dividends on the securities loaned. The loans are secured by collateral at least equal, at all times, to the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Company. The Company has the right under the lending agreement to recover the securities from the borrower on demand; if the borrower fails to deliver the securities on a timely basis, the Company could experience delays or losses on recovery. Additionally, the Company is subject to risk of loss from investments it makes with the cash received as collateral.

Financial futures contracts. The Company invests in financial futures contracts solely for the purpose of hedging its existing portfolio securities, or securities that the Company intends to purchase, against fluctuations in fair value caused by changes in prevailing market interest rates. Upon entering into a financial futures contract, the Company is required to pledge to the broker an amount of cash, U.S. government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Subsequent payments, known as *variation margin*, are made or received by the Company each day, depending on the daily fluctuations in the fair value of the underlying security. The Company recognizes a gain or loss equal to the daily variation margin. If market conditions move unexpectedly, the Company may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates, and the underlying hedged assets.

Short sales. The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Company sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale. The Company is also subject to the risk that it may be unable to reacquire a security to terminate a short position except at a price substantially in excess of the last quoted price.

Foreign currency forward exchange contracts. The Company may enter into forward foreign currency exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the Company agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. The Company's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statement of assets and liabilities. Realized and unrealized gains and losses are included in the statement of operations. These instruments involve market risk, credit risk, or both kinds of risks, in excess of the amount recognized in the statement of assets and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

Credit default swaps. The Company may enter into credit default swaps to manage its exposure to the market or certain sectors of the market, to reduce its risk exposure to defaults of corporate and sovereign issuers or to create exposure to corporate or sovereign issuers to which it is not otherwise exposed. In a credit default swap, the protection buyer makes a stream of payments based on a fixed percentage applied to the contract notional amount to the protection seller in exchange for the right to receive a specified return upon the occurrence of a defined credit event on the reference obligation which may be either a single security or a basket of securities issued by corporate or sovereign issuers. Although contract-specific, credit events are generally defined as bankruptcy, failure to pay, restructuring, obligation acceleration, obligation default, or repudiation/moratorium. Upon the occurrence of a defined credit event, the difference between the value of the reference obligation and the swap's notional

amount is recorded as realized gain (for protection written) or loss (for protection sold) in the statement of operations.

Federal income taxes. The Company's policy is to continue to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. The Company also intends to distribute sufficient net investment income and net capital gains, if any, so that it will not be subject to excise tax on undistributed income and gains. Therefore, no federal income tax or excise provision is required.

Distributions to shareholders. Dividends to shareholders from net investment income, if any, are paid semi-annually. Distributions of capital gains, if any, are made at least annually, and as required to comply with Federal excise tax requirements. Distributions to shareholders are determined in accordance with income tax regulations and are recorded on the ex-dividend date.

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Other. The Company records security transactions based on a trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized, over the lives of the respective securities. Withholding taxes on foreign dividends have been provided for in accordance with the Company's understanding of the applicable country's tax rules and rates.

2. Securities Valuations*

As described in note 1, the Company utilizes various methods to measure the fair value of most of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available; representing the Company's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the se-

* This footnote includes disclosure in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP has been codified in FASB Accounting Standards Codification (ASC) 820-10. This FSP was effective for interim and annual reporting periods ending after June 15, 2009, and should be applied prospectively. Users are reminded that the FSP states that its provisions need not be applied to immaterial items.

Users should also note this financial statement disclosure represents a sample application of this FSP, and that there are many other methods of applying this guidance. Any language used and assessments made are for illustrative purposes and do not represent accounting guidance or best practices. Depending on the facts and circumstances of an investment company, the appropriate disclosures may differ significantly from this illustrative footnote disclosure, and should be appropriately tailored to the specifics of that investment company.

curity. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Value Measurements

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Equity securities (common & preferred stock). Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy. Certain foreign securities may be fair valued using a pricing service that considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments such as American Depositary Receipts, financial futures, Exchange Traded Funds, and the movement of the certain indexes of securities based on a statistical analysis of the historical relationship and are categorized in level 2. Preferred stock and other equities traded on inactive markets or valued by reference to similar instruments are also categorized in level 2.

Corporate bonds. The fair value of corporate bonds is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments. Although most corporate bonds are categorized in level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in level 3.

Asset backed securities. The fair value of asset backed securities is estimated based on models that consider the estimated cash flows of each tranche of the entity, establishes a benchmark yield, and develops an estimated tranche specific spread to the benchmark yield based on the unique attributes of the tranche. To the extent the inputs are observable and timely, the values would be categorized in level 2 of the fair value hierarchy; otherwise they would be categorized as level 3.

Short Term Notes. Short-term notes are valued using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in level 2 of the fair value hierarchy.

U.S. government securities. U.S. government securities are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. U.S. government securities are categorized in level 1 or level 2 of the fair value hierarchy depending on the inputs used and market activity levels for specific securities.

U.S. agency securities. U.S. agency securities are comprised of two main categories consisting of agency issued debt and mortgage pass-throughs. Agency issued debt securities are generally valued in a manner similar to U.S. government securities. Mortgage pass-throughs include to-be-announced (TBA) securities and mortgage pass-through certificates. TBA securities and mortgage pass-throughs are generally valued using dealer quotations. Depending on market activity levels and whether quotations or other data are used, these securities are typically categorized in level 1 or level 2 of the fair value hierarchy.

Restricted securities (equity and debt). Restricted securities for which quotations are not readily available are valued at fair value as determined by the board of directors. Restricted securities issued by publicly

traded companies are generally valued at a discount to similar publicly traded securities. Restricted securities issued by nonpublic entities may be valued by reference to comparable public entities or fundamental data relating to the issuer, or both. Depending on the relative significance of valuation inputs, these instruments may be classified in either level 2 or level 3 of the fair value hierarchy.

Derivative instruments. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in level 1 of the fair value hierarchy. Over the counter (OTC) derivative contracts include forward, swap, and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices, or commodity prices. Depending on the product and the terms of the transaction, the fair value of the OTC derivative products can be modeled taking into account the counterparties' creditworthiness and using a series of techniques, including simulation models. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgments and the pricing inputs are observed from actively quoted markets, as is the case of interest rate swap and option contracts. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized within the level 2 of the fair value hierarchy.

The following table summarizes the inputs used to value the Company's assets and liabilities measured at fair value as of December 31, 20X8.¹⁴

	<i>Assets</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Common stocks—				
<i>Consumer durable goods</i>	\$1,086,000	\$—	\$—	\$1,086,000
Common stocks—				
<i>Consumer nondurable goods</i>	155,000	—	3,280,000	3,435,000
Common stocks—				
<i>Service industries</i>	869,000	—	—	869,000
Common stocks—				
<i>Other industries</i>	921,000	—	—	921,000
Convertible bonds	—	5,400,000	—	5,400,000
Indexed securities	—	—	2,100,000	2,100,000
Mortgage-backed securities	—	2,710,000	—	2,710,000
U.S. governmental obligations	—	3,475,000	—	3,475,000
Short term notes	—	1,225,000	—	1,225,000
Repurchase agreements	—	500,000	—	500,000
Derivative Instruments*	—	419,000	—	419,000
Total	\$3,031,000	\$13,729,000	\$5,380,000	\$22,140,000

*Derivative instruments include call options written, foreign currency forward contracts, credit default swap contracts, and cumulative loss on futures contracts open at December 31, 20X8.

¹⁴ The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

Liabilities

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$(1,673,000)	—	—	\$(1,673,000)
Derivative Instruments*	(280,000)	(129,000)	—	\$(409,000)
Total	\$(1,953,000)	\$(129,000)	—	\$(2,082,000)

*Derivative instruments include call options written, foreign currency forward contracts, credit default swap contracts, and cumulative loss on futures contracts open at December 31, 20X8.

The following is a reconciliation of assets for which level 3 inputs were used in determining value:

	<u>Common Stock</u>	<u>Indexed Securities</u>	<u>Total</u>
Beginning balance	\$2,000,000	\$—	\$2,000,000
Total realized gain (loss)	(500,000)	—	(500,000)
Change in unrealized appreciation (depreciation)	780,000	(300,000)	480,000
Cost of purchases	—	2,400,000	2,400,000
Proceeds from sales	1,000,000	—	1,000,000
Accrued interest	—	—	—
Net transfers in/out of level	—	—	—
Ending balance	<u>\$3,280,000</u>	<u>\$2,100,000</u>	<u>\$5,380,000</u>
The total change in unrealized appreciation (depreciation) included in the statement of operations attributable to level 3 investments still held at December 31, 20X8 includes	<u>\$880,000</u>	<u>\$(300,000)</u>	<u>\$580,000</u>

3. Derivatives Transactions¹⁵

As of December 31, 20X8, portfolio securities valued at \$634,500 were held in escrow by the custodian as cover for call options written by the Company.

Transactions in options written during the year ended December 31, 20X8, were as follows:

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Options outstanding at December 31, 20X7	100	\$100,000
Options written	500	500,000
Options terminated in closing purchase transactions	(150)	(190,000)
Options expired	(80)	(150,000)
Options exercised	<u>(150)</u>	<u>(150,000)</u>
Options outstanding at December 31, 20X8	<u>220</u>	<u>\$110,000</u>

As of December 31, 20X8, the Company sold ten financial futures contracts on ten-year U.S. Treasury notes for delivery in March 20X9. The Company has recorded an unrealized loss of \$50,000 as of December 31, 20X8 related to these contracts. The Company has additionally recorded a liability of \$10,000 as of December 31, 20X8 related to the current day's variation margin related to these contracts.

¹⁵ Practitioners should consider all of the disclosure requirements of FASB ASC 815, *Derivatives and Hedging*, which may not be necessarily reflected in these financial statements and notes to the financial statements.

At December 31, 20X8, the Company sold the following foreign currency forward exchange contracts:

	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>
1,407,900,000 Japanese yen vs. \$14,588,000 for settlement January 25, 20X9	\$419,000	
14,394,000 Euro vs. \$13,206,000 for settlement March 7, 20X9	\$419,000	\$(108,000)
		\$(108,000)

Additionally, the Company had entered into a credit default swap with American Trust Company as counterparty, under which it had agreed to sell protection, expiring June 30, 20Y1 against \$500,000 (par) of Baker Industries, Inc. 6% bonds due 20X9 for an annual premium of 1.75%. At December 31, 20X8, this contract had a fair value of \$(21,000). The current credit rating of Baker Industries, as determined by major credit rating agencies, is BB/Ba. The unrealized depreciation in the contract at December 31, 20X8 indicates that the market's evaluation of a default has increased since the contract's inception, but not to the extent that default is considered imminent.

The locations on the statement of assets and liabilities of the Company's derivative positions by type of exposure, all of which are not accounted for as hedging instruments under FASB ASC 815, *Derivatives and Hedging*, is as follows:

	<u>Location</u>	<u>Fair Value of Asset Derivatives</u>	<u>Location</u>	<u>Fair Value of Liability Derivatives</u>
Interest rate contracts		—	*	\$(50,000)
Foreign exchange contracts	Unrealized gain on foreign currency contract	\$419,000	Unrealized loss on foreign currency contract	\$(108,000)
Credit contracts		—	Unrealized loss on swap contract	\$(21,000)
Equity contracts		—	Call options written	\$(230,000)
Other contracts		—		
Total		<u>\$419,000</u>		<u>\$(409,000)</u>

* Includes cumulative appreciation/depreciation of futures contracts as described previously. Only current day's variation margin is reported within the statement of assets & liabilities.

Realized and unrealized gains and losses on derivatives contracts entered into during the year ended December 31, 20X8, by the Company are recorded in the following locations in the Statement of Operations:

	<u>Location</u>	<u>Realized Gain/Loss</u>	<u>Locations</u>	<u>Unrealized Gain/Loss</u>
Interest rate contracts	Realized gain/loss—investments	\$73,000	Unrealized gain/loss—investments	\$(50,000)
Foreign exchange contracts	Realized gain/loss foreign currency transactions	18,000	Unrealized gain/loss translation	311,000

(continued)

	<u>Location</u>	<u>Realized Gain/ Loss</u>	<u>Locations</u>	<u>Unrealized Gain/Loss</u>
Credit contracts		—	Unrealized gain/ loss—investments	(\$21,000)
Equity contracts	Realized gain/ loss—investments	(\$89,000)	Unrealized gain/ loss—investments	(\$120,000)
Other contracts		—		—
Total		<u>\$2,000</u>		<u>\$120,000</u>

For nonexchange traded derivatives (swaps and forward foreign currency contracts), under standard derivatives agreements, the company may be required to post collateral on derivatives if the company is in a net liability position with the counterparty exceeding certain amounts. Additionally, counterparties may immediately terminate derivatives contracts if the company fails to maintain sufficient asset coverage for its contracts or its net assets decline by stated percentages.

4. Income Taxes

The tax character of distributions paid during 20X8 and 20X7 was as follows:

	<u>20X8</u>	<u>20X7</u>
<i>Distributions paid from:</i>		
Ordinary income	\$755,000	\$550,000
Long-term capital gain	<u>1,120,000</u>	<u>800,000</u>
	1,875,000	1,350,000
Return of capital	<u>—</u>	<u>66,000</u>
	<u>\$1,875,000</u>	<u>\$1,416,000</u>

As of December 31, 20X8, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$1,304,000
Undistributed long-term gain	1,145,000
Unrealized appreciation	<u>1,540,000</u>
	<u>\$3,989,000</u>

The difference between book basis and tax-basis unrealized appreciation is attributable primarily to the tax deferral of losses on wash sales and the realization for tax purposes of unrealized gains on certain forward foreign currency contracts and on investments in passive foreign investment companies.

Permanent book and tax basis differences, if any, result in reclassifications to paid-in capital. These reclassifications have no impact on net assets or results of operations. Permanent book/tax differences are primarily attributable to derivatives transactions.

The U.S. federal income tax basis of the Company's investments at December 31, 20X8, was \$19,321,000, and net unrealized appreciation for U.S. federal income tax purposes was \$1,780,000 (gross unrealized appreciation \$2,380,000; gross unrealized depreciation \$600,000).

The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (20X5–20X8), or expected to be taken in the fund's 20X9 tax returns. The Company identifies its major tax jurisdictions as U.S. Federal, New York State and foreign jurisdictions where the Company makes significant investments; however the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

5. Bank Loans

The Company has an unsecured \$3,000,000 bank line of credit; borrowings under this arrangement bear interest at 110 percent of the bank's prime rate. As of December 31, 20X8, the Company was paying interest at 8 percent per year on its outstanding borrowings. No compensating balances are required.

6. Capital Share Transactions

As of December 31, 20X8, 25,000,000 shares of \$0.50 par value capital stock were authorized.

Transactions in capital stock were as follows:

	<i>Shares</i>		<i>Amount</i>	
	20X8	20X7	20X8	20X7
Shares sold	452,000	329,000	\$2,186,000	\$1,440,000
Shares issued in reinvestment of distributions	222,000	207,000	1,000,000	845,000
	674,000	536,000	3,186,000	2,285,000
Shares redeemed	104,000	121,000	456,000	530,000
Net increase	570,000	415,000	\$2,730,000	\$1,755,000

On January 3, 20X9, a distribution of \$0.20 per share was declared from net investment income. The dividend was paid on January 20, 20X9, to shareholders of record on January 10, 20X9.

7. Investment Transactions

Purchases and sales of investment securities (excluding short-term securities and U.S. government obligations) were \$23,420,000 and \$24,030,000, respectively.

8. Portfolio Securities Loaned

As of December 31, 20X8, the Company loaned common stocks having a fair value of approximately \$570,000, and received \$620,000 of cash collateral for the loan. This cash was invested in U.S. Treasury bills with maturities ranging from January to April 20X9.

9. Investment Advisory Fees and Other Transactions With Affiliates

The Company receives investment management and advisory services under a management agreement (agreement) that provides for fees to be paid at an annual rate of 0.65 percent of the Company's average daily net assets. Certain officers and directors of the Company are also officers and directors of the investment adviser. The agreement provides for an expense reimbursement from the investment adviser if the Company's total expenses, exclusive of taxes, interest on borrowings, dividends on securities sold short, brokerage commissions, and extraordinary expenses, exceed 1.5 percent of the Company's average daily net assets for any full fiscal year. During the year ended December 31, 20X8, the investment adviser voluntarily waived \$45,000 of its fee.

The investment adviser also received \$5,000 in 20X8 from brokerage fees on executions of purchases and sales of the Company's portfolio investments.

During 20X8, the Company incurred legal fees of \$7,000 to Brown and Smith, counsel for the Company. A partner of the firm is a director of the Company.

MNO Service Company (MNO), an affiliate of the investment adviser, is the distributor of the Company's shares and received \$10,000 in 20X8 from commissions earned on sales of the Company's capital stock. The Company has entered into a distribution agreement and plan of distribution pursuant to which the Company pays MNO a fee, accrued daily and payable monthly, at an annual rate of 0.75

percent of average daily net assets of the Company. During the year ended December 31, 20X8, MNO received contingent deferred sales charges of \$18,000 from redeeming shareholders. Also, the amount of distribution expenses incurred by MNO and not yet reimbursed was approximately \$187,000. This amount may be recovered from future payments under the plan or contingent deferred sales charges.

Included in the statement of operations under the caption "custodian and transfer agent fees" are expense offsets of \$4,000 arising from credits on cash balances maintained on deposit.

	Financial Highlights				
	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>	<u>20X4¹⁶</u>
Per Share Operating Performance (For a share of capital stock outstanding throughout the period):					
Net asset value, beginning of period	<u>\$4.88</u>	<u>\$4.46</u>	<u>\$4.16</u>	<u>\$4.81</u>	<u>\$4.53</u>
<i>Income from investment operations:</i>					
Net investment income	0.21	0.15	0.19	0.17	0.15
Net realized and unrealized gain (loss) on investment transactions	<u>(0.04)</u>	<u>0.76</u>	<u>0.52</u>	<u>(0.42)</u>	<u>0.48</u>
Total from investment operations	<u>0.1</u>	<u>0.91</u>	<u>0.71</u>	<u>(0.25)</u>	<u>0.63</u>
Less distributions	(0.50)	(0.47)	(0.41)	(0.40)	(0.35)
Tax return of capital distribution	<u>—</u>	<u>(0.02)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total distributions	<u>(0.50)</u>	<u>(0.49)</u>	<u>(0.41)</u>	<u>(0.40)</u>	<u>(0.35)</u>
Net asset value, end of period	<u><u>\$4.55</u></u>	<u><u>\$4.88</u></u>	<u><u>\$4.46</u></u>	<u><u>\$4.16</u></u>	<u><u>\$4.81</u></u>
Total Return: ¹⁷	3.48%	20.40%	17.07%	(5.02)%	3.91%
Supplemental Data:					
Net assets, end of period (000)	\$19,173	\$17,792	\$14,410	\$15,000	\$14,000
<i>Ratio to average net assets:</i>					
Expenses ¹⁸	1.33% ¹⁹	1.31%	.99%	.82%	84% ¹⁹
Net investment income ¹⁸	4.56% ¹⁹	2.82%	4.22%	5.42%	5.10% ¹⁹
Portfolio turnover rate	92%	80%	108%	75%	62%

The accompanying notes are an integral part of these financial statements.

¹⁶ Period from March 1, 20X4 (inception) to December 31, 20X4.

¹⁷ Not annualized for periods less than a year.

¹⁸ Annualized for periods less than one year.

¹⁹ Such percentages are after advisory fee waivers and expense subsidies. The adviser voluntarily waived a portion of its investment advisory fee (equal to 0.22 percent of average net assets) in 20X8 and subsidized certain operating expenses (equal to 0.21 percent of average net assets) in 20X4.

Illustrative Financial Statements for Management Investment Companies That Have Multiple Classes of Shares or Master Feeder Structures

XYZ Multiple-Class Fund Statement of Assets and Liabilities December 31, 20X8

<i>Assets</i>	
Investments in securities, at fair value (cost \$18,674,000)	\$21,101,000
Cash	199,000
Deposits with brokers for securities sold short	1,555,000
Collateral for securities loaned, at fair value	620,000
Receivables:	
Dividends and interest	46,000
Investment securities sold	24,000
Capital shares sold	54,000
Other assets	26,000
Total assets	<u>23,625,000</u>
<i>Liabilities</i>	
Options written, at fair value (premiums received \$110,000)	230,000
Securities sold short, at fair value (proceeds \$1,555,000)	1,673,000
Demand loan payable to bank	2,000,000
Payable upon return of securities loaned	620,000
Due to broker—variation margin	10,000
Payables:	
Investment securities purchased	52,000
Capital stock reacquired	8,000
Other	4,000
Accrued expenses	8,000
Distribution payable	158,000
Total liabilities	<u>4,763,000</u>
<i>Net assets</i>	<u><u>\$18,862,000</u></u>
<i>Net assets consist of:</i>	
Paid-in capital	\$15,184,000
Distributable earnings	3,678,000
Total net assets	<u><u>\$18,862,000</u></u>
<i>Net asset value per share:</i>	
Class A—based on net assets of \$15,089,600 and 3,375,750 shares outstanding	<u>\$4.47</u>
Class A public offering price (\$4.47 net asset value divided by .95)	<u>\$4.71</u>
Class B—based on net assets of \$3,772,400 and 845,830 shares outstanding	<u>\$4.46</u>

The accompanying notes are an integral part of these financial statements.

XYZ Multiple-Class Fund
Statement of Operations
Year Ended December 31, 20X8

Investment income:	
Dividends (net of foreign withholding taxes of \$20,000)	\$742,000
Interest	209,000
Income from loaned securities—net	50,000
Total income	<u>1,001,000</u>
Expenses:	
Investment advisory fee	137,400
Service fees—Class A	36,600
Distribution and service fees—Class B	37,000
Interest	10,000
Professional fees	18,000
Custodian	5,000
Transfer agent fees—Class A	10,000
Transfer agent fees—Class B	12,000
Directors' fees	10,000
Dividends on securities sold short	3,000
Total gross expenses	<u>279,000</u>
Less waivers:	
Distribution and service fees—Class B	(18,500)
Investment advisory fee	(34,500)
Total net expenses	<u>226,000</u>
Investment income—net	<u>775,000</u>
Realized and unrealized gain (loss) on investments:	
Net realized gain (loss) on investments	1,089,000
Net change in unrealized appreciation (depreciation) on investments	<u>(1,649,000)</u>
Net loss on investments	<u>(560,000)</u>
Net increase in net assets resulting from operations	<u><u>\$215,000</u></u>

The accompanying notes are an integral part of these financial statements.

Investment Companies

XYZ Multiple-Class Fund
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	<u>20X8</u>	<u>20X7</u>
Increase (decrease) in net assets from operations:		
Investment income—net	\$775,000	\$724,000
Net realized gain on investments	1,089,000	1,000,000
Change in unrealized appreciation or depreciation	<u>(1,649,000)</u>	<u>1,319,000</u>
Net increase in net assets resulting from operations	<u>215,000</u>	<u>3,043,000</u>
Distributions to shareholders:		
Class A	(1,505,250)	(1,104,500)
Class B	(360,750)	(239,500)
Tax return of capital:		
Class A	—	(52,800)
Class B	—	(13,200)
Total distributions	<u>(1,866,000)</u>	<u>(1,410,000)</u>
Net increase from capital share transactions	<u>2,721,000</u>	<u>4,700,000</u>
Total increase in net assets	1,070,000	6,333,000
Net assets:		
Beginning of year	<u>17,792,000</u>	<u>11,459,000</u>
End of year	<u><u>\$18,862,000</u></u>	<u><u>\$17,792,000</u></u>

The accompanying notes are an integral part of these financial statements.

XYZ Multiple-Class Fund
Notes to Financial Statements

[The following notes are limited to illustrations of disclosures unique to a multiple-class fund structure. In addition to the disclosures provided, notes for a multiple-class fund would include all standard disclosures presented as part of the illustrative financial statements in chapter 7.]

1. Significant Accounting Policies

XYZ Multiple-Class Fund (the fund) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The fund offers 2 classes of shares (class A and class B). Each class of shares has equal rights as to earnings and assets except that each class bears different distribution, shareholder service, and transfer agent expenses. Each class of shares has exclusive voting rights with respect to matters that affect just that class. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets. Class B shares automatically convert to class A shares at the end of the month following the eighth anniversary of issuance.

2. Capital Share Transactions

The fund is authorized to issue an unlimited number of shares in an unlimited number of classes.

Transactions in the capital shares of the fund were as follows:

	20X8		20X7	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Class A:				
Shares sold	309,000	\$1,444,500	690,500	\$3,176,000
Shares issued from reinvestments	195,000	1,040,000	171,000	770,000
Shares redeemed	(57,000)	(253,500)	(40,000)	(186,000)
Net increase from capital share transactions	<u>447,000</u>	<u>\$2,231,000</u>	<u>821,500</u>	<u>\$3,760,000</u>
Class B:				
Shares sold	61,925	\$290,100	185,000	\$848,000
Shares issued from reinvestments	57,875	270,000	35,000	160,000
Shares redeemed	(15,000)	(70,100)	(15,000)	(68,000)
Net increase from capital share transactions	<u>104,800</u>	<u>\$490,000</u>	<u>205,000</u>	<u>\$940,000</u>

3. Investment Advisory Fees and Other Transactions With Affiliates

The fund has entered into a distribution plan, pursuant to rule 12b-1 under the Investment Company Act of 1940, with XYZ Distributors (distributors). Under the plan, class A shares pay a monthly shareholder servicing fee at an annual rate of 0.25 percent of class A average daily net assets. Class B shares pay monthly shareholder servicing and distribution fees at the annual rate of 0.25 percent and 0.75 percent, respectively, of class B average daily net assets. These fees compensate distributors for the services they provide and for expenses borne by distributors under the agreement. During the year ended December 31, 20X8, distributors waived \$18,500 of their distribution fees related to class B shares.

For the year ended December 31, 20X8, distributors received \$70,000 in sales commissions from the sale of class A shares. Distributors also received \$6,500 of contingent deferred sales charges relating to redemptions of class B shares.

XYZ Service Company, an affiliate of advisers, provides transfer agent services to the fund. Under the transfer agent agreement with XYZ Service Company, the fund pays a monthly fee equal, on an annual basis, to \$15 and \$18 per shareholder account for class A and class B shares, respectively.

XYZ Multiple-Class Fund
Financial Highlights

	<i>Class A</i>			<i>Class B</i>		
	<u>20X8</u>	<u>20X7</u>	<u>20X6²⁰</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6²⁰</u>
<i>Per share operating performance:²¹</i>						
Net asset value, beginning of year	<u>\$4.88</u>	<u>\$4.46</u>	<u>\$4.00</u>	<u>\$4.88</u>	<u>\$4.45</u>	<u>\$4.00</u>
Income from investment operations:						
Net investment income	0.21	0.20	0.12	0.19	0.20	0.11
Net realized and unrealized gain (loss) on investment transactions	<u>(0.12)</u>	<u>0.71</u>	<u>0.50</u>	<u>(0.12)</u>	<u>0.71</u>	<u>0.49</u>
Total from investment operations	<u>0.09</u>	<u>0.91</u>	<u>0.62</u>	<u>0.07</u>	<u>0.91</u>	<u>0.60</u>
Less distributions:						
Dividends and distributions	(0.50)	(0.44)	(0.16)	(0.49)	(0.43)	(0.15)
Tax return of capital distributions	<u>0</u>	<u>(0.05)</u>	<u>0</u>	<u>0</u>	<u>(0.05)</u>	<u>0</u>
Total distributions	<u>(0.50)</u>	<u>(0.49)</u>	<u>(0.16)</u>	<u>(0.49)</u>	<u>(0.48)</u>	<u>(0.15)</u>
Net asset value, end of year	<u>\$4.47</u>	<u>\$4.88</u>	<u>\$4.46</u>	<u>\$4.46</u>	<u>\$4.88</u>	<u>\$4.45</u>
<i>Total return²²</i>	1.84%	20.40%	15.50%	1.43%	19.90%	15.00%
<i>Percentages and supplemental data:</i>						
Net assets, end of period (000s)	<u>\$15,090</u>	<u>\$14,167</u>	<u>\$9,167</u>	<u>\$3,772</u>	<u>\$3,625</u>	<u>\$2,292</u>
Ratios to average net assets:						
Expenses ²³	1.23%	1.30%	1.35% ²⁴	1.48%	2.05%	2.10% ²⁴
Net investment income ²³	4.15%	2.82%	4.00% ²⁴	3.90%	2.07%	3.25% ²⁴
Portfolio turnover rate	92%	80%	75%	92%	80%	75%

The accompanying notes are an integral part of these financial statements.

²⁰ For the period from June 1, 20X6, commencement of operations, to December 31, 20X6.

²¹ Selected data for a share of capital stock outstanding throughout the year.

²² Total return excludes the effect of sales charges.

²³ During 20X8, 20X7, and 20X6, the adviser and distributor voluntarily waived a portion of their advisory fees and a portion of the class B distribution fee (0.50%). Absent these waivers, the expense percentages would have been approximately 1.48%, 1.55%, 1.60%, 2.23%, 2.80%, and 2.85%, respectively.

²⁴ Annualized.

ABC Feeder Fund, Inc.
Statement of Assets and Liabilities
December 31, 20X8

<i>Assets</i>	
Investment in ABC Master Portfolio	\$15,089,600
Receivable for capital shares sold	110,000
Prepaid expenses and other assets	35,000
Total assets	<u>15,234,600</u>
<i>Liabilities</i>	
Administrative fee payable	20,000
Payable for capital shares redeemed	30,000
Dividends payable	40,000
Other accrued liabilities	25,000
Total liabilities	<u>115,000</u>
<i>Net assets</i>	<u>\$15,119,600</u>
Net assets consist of:	
Paid-in capital, 1,250,000 shares outstanding	\$12,258,600
Distributable earnings	2,861,000
Total net assets	<u>\$15,119,600</u>
<i>Net asset value per share</i>	<u>\$12.10</u>
Public offering price (\$12.10 net asset value divided by 0.95)	<u>\$12.74</u>

The accompanying notes are an integral part of these financial statements.

Investment Companies

ABC Feeder Fund, Inc.
Statement of Operations²⁵
Year Ended December 31, 20X8

Net investment income allocated from ABC Master Portfolio:	
Dividends	\$579,000
Interest	168,200
Income from loaned securities—net	40,000
Expenses ²⁶	<u>(179,000)</u>
Net investment income from ABC Master Portfolio	<u>608,200</u>
Fund expenses:	
Administrative fees	15,000
Distribution and servicing fees	37,500
Professional fees	12,000
Transfer agent fees	35,000
Directors' fees	10,000
Registration fees	26,000
Other expenses	<u>12,000</u>
Total expenses	<u>147,500</u>
Investment income—net	<u>460,700</u>
Realized and unrealized gain (loss) on investments allocated from ABC Master Portfolio:	
Net realized gain on investments	865,000
Net change in unrealized appreciation (depreciation) on investments	<u>(1,320,000)</u>
Net loss on investments	<u>(455,000)</u>
Net increase in net assets resulting from operations	<u><u>\$5,700</u></u>

The accompanying notes are an integral part of these financial statements.

²⁵ In the initial year of adopting a master-feeder structure, the feeder's statement of operations may be a combination of (a) direct income, expenses, and realized gains and losses for the period prior to adoption of the master-feeder structure, and (b) the allocated amounts from the master portfolio for the period from adoption to fiscal year end.

²⁶ Any expense waivers should be reported in a note to the statement of operations.

ABC Feeder Fund, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	<u>20X8</u>	<u>20X7</u>
Increase (decrease) in net assets from operations:		
Investment income—net	\$460,700	\$369,000
Net realized gain on investments	865,000	750,000
Change in unrealized appreciation or depreciation	<u>(1,320,000)</u>	<u>1,178,000</u>
Net increase in net assets resulting from operations	<u>5,700</u>	<u>2,297,000</u>
Distributions to shareholders	<u>(1,178,700)</u>	<u>(1,071,000)</u>
Net increase from capital share transactions:		
Sold 147,000 and 207,000 shares	1,782,600	2,359,000
Distributions reinvested of 72,000 and 73,000 shares	880,000	820,000
Redeemed 20,700 and 13,000 shares	<u>(250,000)</u>	<u>(150,000)</u>
Net increase from capital share transactions	<u>2,412,600</u>	<u>3,029,000</u>
Total increase in net assets	1,239,600	4,255,000
Net assets: Beginning of year	<u>13,880,000</u>	<u>9,625,000</u>
End of year	<u><u>\$15,119,600</u></u>	<u><u>\$13,880,000</u></u>

The accompanying notes are an integral part of these financial statements.

ABC Feeder Fund, Inc.
Notes to Financial Statements

[The following notes are limited to illustrations of disclosures unique to feeder fund financial statements. Besides the following disclosures presented, notes for a feeder fund would include all standard disclosures presented as part of the illustrative financial statements in chapter 7. Exceptions to the standard chapter 7 disclosures would be the omission of notes relating to the master fund portfolio activity and expenses such as the advisory fee incurred, which are disclosed in the master fund financial statements.]

1. Significant Accounting Policies

ABC Feeder Fund, Inc. (the fund) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The fund invests substantially all of its assets in the ABC Master Portfolio, an open-end investment company that has the same investment objectives as the fund. The financial statements of the ABC Master Portfolio, including the schedule of investments, are included elsewhere in this report and should be read with the fund's financial statements. The percentage of ABC Master Portfolio owned by the fund at December 31, 20X8, was 80 percent.

Valuation of investments. The fund records its investment in ABC Master Portfolio at fair value. The notes to the ABC Master Portfolio financial statements included elsewhere in this report provide information about the Master Portfolio's valuation policy and its period-end security valuations.

Investment income and expenses. The fund records daily its proportionate share of the ABC Master Portfolio's income, expenses, and realized and unrealized gains and losses. In addition, the fund accrues its own expenses.

ABC Feeder Fund, Inc.
Financial Highlights

	20X8	20X7	20X6 ²⁷
<i>Per share operating performance:</i> ^{28, 29}			
Net asset value, beginning of year	\$13.11	\$11.75	\$10.00
Income from investment operations:			
Net investment income	0.40	0.41	0.38
Net realized and unrealized gain (loss) on investment transactions	(0.39)	2.12	2.47
Total from investment operations	0.01	2.53	2.85
Less distributions	(1.02)	(1.17)	(1.10)
Net asset value, end of year	<u>\$12.10</u>	<u>\$13.11</u>	<u>\$11.75</u>
Total return	0.08%	21.53%	28.50%
<i>Percentages and supplemental data:</i>			
Net assets, end of period (000s)	\$15,119	\$13,880	\$9,625
Ratios to average net assets: ²⁹			
Expenses	2.25%	2.30%	2.32% ³⁰
Net investment income	3.21%	2.48%	2.58% ³⁰

The accompanying notes are an integral part of these financial statements.

²⁷ For the period from March 1, 20X6, the date of commencement of operations, to December 31, 20X6.

²⁸ Selected data for a share of capital stock outstanding throughout the year.

²⁹ The per share amounts and percentages reflect income and expenses assuming inclusion of the fund's proportionate share of the income and expenses of ABC Master Portfolio.

³⁰ Annualized.

ABC Master Portfolio
Statement of Assets and Liabilities
December 31, 20X8

Assets

Investments in securities, at fair value (cost \$18,674,000)	\$21,101,000
Cash	199,000
Deposits with brokers for securities sold short	1,555,000
Collateral for securities loaned, at fair value	620,000
Receivables:	
Dividends and interest	100,000
Investment securities sold	24,000
Other assets	26,000
Total assets	<u>23,625,000</u>

Liabilities

Options written, at fair value (premiums received \$110,000)	230,000
Securities sold short, at fair value (proceeds \$1,555,000)	1,673,000
Demand loan payable to bank	2,000,000
Payable upon return of securities loaned	620,000
Due to broker—variation margin	10,000
Payables:	
Investment securities purchased	210,000
Other	12,000
Accrued expenses	8,000
Total liabilities	<u>4,763,000</u>
<i>Net assets</i>	<u><u>\$18,862,000</u></u>

The accompanying notes are an integral part of these financial statements.

Investment Companies

ABC Master Portfolio
Statement of Operations
Year Ended December 31, 20X8

Investment income:	
Dividends (net of foreign withholding taxes of \$20,000)	\$742,000
Interest	209,000
Income from loaned securities—net	50,000
Total income	<u>1,001,000</u>
Expenses:	
Investment advisory fee	171,900
Interest	10,000
Professional fees	18,000
Custodian	13,100
Directors' fees	10,000
Dividends on securities sold short	3,000
Total expenses	<u>226,000</u>
Investment income—net	<u>775,000</u>
Realized and unrealized gain (loss) on investments:	
Net realized gain on investments	1,089,000
Net change in unrealized appreciation on investments	<u>(1,649,000)</u>
Net loss on investments	<u>(560,000)</u>
Net increase in net assets resulting from operations	<u><u>\$215,000</u></u>

The accompanying notes are an integral part of these financial statements.

ABC Master Portfolio
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	<u>20X8</u>	<u>20X7</u>
Increase (decrease) in net assets from operations:		
Investment income—net	\$775,00	\$492,000
Net realized gain on investments	1,089,000	1,000,000
Net change in unrealized appreciation or (depreciation)	<u>(1,649,000)</u>	<u>1,551,000</u>
Net increase in net assets resulting from operations	<u>215,000</u>	<u>3,043,000</u>
Proceeds from contributions	3,000,000	5,000,000
Fair value of withdrawals	<u>(2,145,000)</u>	<u>(2,751,000)</u>
	<u>855,000</u>	<u>2,249,000</u>
Increase in net assets	1,070,000	5,292,000
Net assets:		
Beginning of year	<u>17,792,000</u>	<u>12,500,000</u>
End of year	<u><u>\$18,862,000</u></u>	<u><u>\$17,792,000</u></u>

The accompanying notes are an integral part of these financial statements.

ABC Master Portfolio
Notes to Financial Statements

[The following notes are limited to illustrations of disclosures unique to master fund financial statements. Besides the following disclosures presented, notes for a master fund would include all standard disclosures presented as part of the illustrative financial statements in chapter 7. Exceptions to the standard chapter 7 disclosures would be the omission of notes regarding dividend distributions, capital share transactions, and distribution fees, each of which is disclosed in the financial statements of the feeder fund.]

1. Significant Accounting Policies

ABC Master Portfolio (the portfolio) is organized as a trust and is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The Declaration of Trust permits the trustees to issue nontransferable interests in the portfolio. For federal income tax purposes, the portfolio qualifies as a partnership, and each investor in the portfolio is treated as the owner of its proportionate share of the net assets, income, expenses, and realized and unrealized gains and losses of the portfolio. Accordingly, as a pass-through entity, the portfolio pays no income dividends or capital gain distributions.

2. Federal Income Taxes

The portfolio will be treated as a partnership for federal income tax purposes. As such, each investor in the portfolio will be subject to taxation on its share of the portfolio's ordinary income and capital gains. It is intended that the portfolio's assets will be managed so an investor in the portfolio can satisfy the requirements of Subchapter M of the Internal Revenue Code.

3. Financial Highlights

Financial highlights for the portfolio for each period were as follows:

	20X8	20X7	20X6 ³¹
Total return	1.21%	24.34%	31.20%
Ratios to average net assets:			
Expenses	1.23%	1.25%	1.27% ³²
Net investment income	4.23%	3.25%	3.34% ³²
Portfolio turnover rate	92%	80%	102%

³¹ For the period from March 1, 20X6, the date of commencement of operations, to December 31, 20X6.

³² Annualized.

FOF Fund, Inc.
Statement of Net Assets
September 30, 200Y

[The following sample financial statements are limited to matters directly related to funds of funds. The sample financial statements in chapters 5 and 7 should be consulted for relevant disclosures.]

Assets:	
204,100 shares FOF Growth Fund, Inc.	\$2,046,762
182,633 shares FOF International Fund, Inc.	2,224,470
96,152 shares FOF Income Fund, Inc.	1,046,134
602,908 shares FOF Money Market Fund, Inc.	<u>602,908</u>
Total investments (cost \$5,617,279)	5,920,274
Cash	9,000
Receivable for Fund shares sold	23,652
Other assets	<u>2,710</u>
Total assets	<u>5,955,636</u>
Liabilities:	
Payable for Fund shares repurchased	37,123
Accrued expenses	<u>8,327</u>
Total liabilities	<u>45,450</u>
Net assets (equivalent to \$10.73 per share based on 550,810 shares of capital stock issued and outstanding; unlimited shares authorized)	<u><u>\$5,910,186</u></u>
Components of net assets:	
Paid-in capital	\$5,569,426
Distributable earnings	<u>340,760</u>
	<u><u>\$5,910,186</u></u>

The accompanying notes are an integral part of these financial statements.

Investment Companies

FOF Fund, Inc.
Statement of Operations
Year Ended September 30, 200Y

Investment income:		
Dividends from investment company shares		\$201,942
Expenses:		
Custodian and transfer agent fees	\$22,560	
Professional fees	8,318	
Registration fees	1,040	
Directors' fees	<u>1,982</u>	
Total expenses		<u>33,900</u>
Net investment income		168,042
Realized and unrealized gain (loss) on investments:		
Realized gain on sales of investment company shares	\$12,067	
Realized gain distributions from investment company shares	<u>321,939</u>	
Net realized gain		334,006
Change in unrealized appreciation (depreciation) on investments during the year		<u>219,837</u>
Net realized and unrealized gain		<u>553,843</u>
Net increase in net assets resulting from operations		<u><u>\$721,885</u></u>

The accompanying notes are an integral part of these financial statements.

FOF Fund, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 200Y and 200X³³

	<u>200Y</u>	<u>200X</u>
Increase (decrease) in net assets from:		
Net investment income	\$168,042	\$32,177
Net realized gain on investments	334,006	16,090
Change in net unrealized appreciation	<u>219,837</u>	<u>83,158</u>
	721,885	131,425
Distributions to shareholders	(484,617)	(27,933)
Capital share transactions—net	<u>2,172,589</u>	<u>3,396,837</u>
Net increase in net assets	2,409,857	3,500,329
Net assets:		
Beginning of year	<u>3,500,329</u>	<u>—</u>
End of year	<u><u>\$5,910,186</u></u>	<u><u>\$3,500,329</u></u>

The accompanying notes are an integral part of these financial statements.

³³ The fund commenced operations on October 1, 200W.

FOF Fund, Inc.
Notes to Financial Statements

1. Significant Accounting Policies

FOF Fund, Inc. (the fund) is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. The fund invests solely in shares of other funds within the FOF Group of Mutual Funds with the objective of seeking high total return through investments allocated to diverse equity and fixed-income markets.

The following is a summary of significant accounting policies that are in conformity with generally accepted accounting principles and which are followed consistently by the fund in the preparation of its financial statements. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Security valuation. Investments in funds within the FOF Group of Mutual Funds are valued at fair value based on the net asset values as reported by the underlying funds.

Transaction dates. Share transactions are recorded on the trade date. Dividend income and realized gain distributions from other funds are recognized on the ex-dividend date. Distributions to shareholders, which are determined in accordance with income tax regulations, are similarly recorded on the ex-dividend date. In determining the net gain or loss on securities sold, the cost of securities is determined on the identified cost basis.

Federal income taxes. The fund's policy is to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Thus, no federal income tax provision is required.

2. Investment Transactions and Valuation

Cost of purchases and proceeds of sales of shares of funds within the FOF Group of Mutual Funds (excluding FOF Money Market Fund, Inc.) for the year ended September 30, 200Y, were \$2,482,315 and \$336,232, respectively. At September 30, 200Y, the cost of investments for federal income tax purposes was \$5,617,279 and gross unrealized appreciation was \$302,995; there was no gross unrealized depreciation.

The fund utilizes various methods to measure the fair value of most of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the fund has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk yield curves, default rates and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent observable inputs are not available, representing the fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The following table summarizes the inputs used to value the fund's assets measured at fair value as of September 30, 200Y.³⁴

<i>Valuation Inputs</i>	<i>Investments in Securities</i>
Level 1	\$5,920,274
Level 2	—
Level 3	—
Total	\$5,920,274

3. Investment Advisory Services and Other Transactions With Affiliates

The fund receives investment management and advisory services, consisting principally of determining the allocation of the assets of the fund among designated underlying funds, under a management agreement with FOF Investment Management, Inc. (the manager). The manager receives no compensation under this agreement; however, the fund pays management fees and expenses to the manager indirectly, as a shareholder in funds of the FOF Group of Mutual Funds. Additionally, each fund in which the fund invests (except FOF Money Market Fund, Inc.) pays a distribution fee to FOF Distributors, Inc., the distributor of the fund, in the amount of 0.25 percent of average annual net assets. The fund pays no sales loads or similar compensation to FOF Distributors, Inc. to acquire shares of each fund in which it invests.

Because the underlying funds have varied expense and fee levels and the fund may own different proportions of underlying funds at different times, the amount of fees and expenses incurred indirectly by the fund will vary.

The fund paid \$1,982 to unaffiliated directors during the year ended September 30, 200Y. No compensation is paid to any director or officer who is affiliated with the manager.

4. Capital Share Transactions

Transactions in capital shares were as follows:

	<i>Years Ended September 30,</i>			
	<i>200Y</i>		<i>200X</i>	
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>
Shares sold	204,017	\$2,077,520	354,695	\$3,590,241
Shares issued in reinvestment of dividends	41,817	425,255	2,615	27,013
Shares redeemed	(30,948)	(330,186)	(21,386)	(220,417)
Net increase	<u>214,886</u>	<u>\$2,172,589</u>	<u>335,924</u>	<u>\$3,396,837</u>

5. Components of Capital

Components of capital on a federal income tax basis at September 30, 200Y, were as follows:

Paid-in capital	\$5,569,426
Undistributed ordinary income	11,460
Undistributed net realized gain	26,305
Unrealized appreciation	<u>302,995</u>
	\$5,910,186

³⁴ The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

The tax character of distributions paid during the years ended September 30, 200Y, and 200X, was as follows:

	200Y	200X
Ordinary income	\$160,826	\$27,933
Long-term capital gain	323,791	—
	<u>\$484,617</u>	<u>\$27,933</u>

Financial Highlights

	Year Ended September 30, 200Y	200X
Per share data (for a share outstanding throughout the period):		
Net investment income ³⁵	\$.38	\$.20
Net realized and unrealized (gain) loss on investments	1.04	.38
Total from investment operations	<u>1.42</u>	<u>.58</u>
Less: Distributions to shareholders	<u>(1.11)</u>	<u>(.16)</u>
Net increase (decrease)	.31	.42
Net asset value:		
Beginning of year ³⁶	<u>10.42</u>	<u>10.00</u>
End of year	<u>\$10.73</u>	<u>\$10.42</u>
Total return	13.59%	5.86%
Net assets, end of year (000s)	\$5,910	\$3,501
Ratio of expenses to average net assets ³⁷	0.72%	0.89% ³⁸
Net investment income as a percentage of average net assets ³⁵	3.59%	1.96% ³⁸
Portfolio turnover rate	21%	5%

³⁵ Recognition of net investment income by the fund is affected by the timing of the declaration of dividends by the underlying investment companies in which the fund invests.

³⁶ Investment operations commenced on October 1, 200W.

³⁷ Does not include expenses of the investment companies in which the fund invests.

³⁸ Annualized.

Illustrative Financial Statements for a Unit Investment Trust

Anytown Income Trust First Intermediate Series Statement of Assets and Liabilities August 31, 20X8

Trust Property

Assets

Investment in securities, at fair value (cost \$14,591,035) (note 1 and Schedule 1)	\$13,878,788
Interest receivable	339,174
Cash	166,489
Total assets	<u>14,384,451</u>

Liabilities and Net Assets

Liabilities

Trustee and evaluator fees payable	47
Accrued other expenses payable	475
Total liabilities	<u>522</u>

Net assets

Balance applicable to 15,500 units of fractional undivided interest outstanding (notes 1 and 3)	
Cost to original investors	15,475,560
Less initial underwriting commission	<u>(619,022)</u>
	14,856,538
Accumulated losses	(232,610)
Principal distributions to unit holders of proceeds from investment transactions	<u>(239,999)</u>
Net assets	<u>\$14,383,929</u>
Net asset value per unit (15,500 units)	<u>\$928</u>

The accompanying notes are an integral part of these financial statements.

Investment Companies

Schedule 1
Anytown Income Trust
First Intermediate Series
Portfolio of Investments
August 31, 20X8

<i>Name of Issuer and Title of Issue</i>	<i>Coupon Rate (%)</i>	<i>Date of Maturity or Final Sinking Fund Payment</i>	<i>Principal Amount or Par Value</i>	<i>Fair Value</i>	
Corporate debt obligations:					
Air transport					
Flying Tiger Lines Incorporated equipment trust certificates	9.000	10/01/Y1	<u>\$931,000</u>	<u>\$912,380</u>	
Total air transport (percentage of net asset value)			<u>931,000</u>	<u>912,380</u>	(6.3%)
Banking					
Dominion Bankshares notes	9.500	4/01/Y3	1,000,000	1,022,500	
First Maryland Bancorp notes	9.750	11/01/Y3	250,000	252,500	
Southeast Banking Corporation notes	10.000	5/01/Y3	<u>218,000</u>	<u>224,267</u>	
Total banking (percentage of net asset value)			<u>1,468,000</u>	<u>1,499,267</u>	(10.4%)
Utilities					
Utah Power & Light Company first mortgage bonds	4.500	6/01/Y2	<u>12,100,000</u>	<u>11,467,141</u>	
Total utilities (percentage of net asset value)			<u>12,100,000</u>	<u>11,467,141</u>	(79.7%)
Total securities (percent- age of net asset value)			<u><u>\$14,499,000</u></u>	<u><u>\$13,878,788</u></u>	(96.5%)

The accompanying notes are an integral part of these financial statements.

**Anytown Income Trust
First Intermediate Series
Statements of Operations**

	<i>For the Year Ended August 31, 20X8</i>	<i>From March 23, 20X7 (Date of Deposit) Through August 31, 20X7</i>
Investment income		
Interest income	<u>\$1,258,975</u>	<u>\$554,509</u>
Expenses (note 1)		
Trustee's fee	14,063	5,411
Evaluator's fee	1,350	375
Other	<u>1,083</u>	<u>351</u>
Total expenses	<u>16,496</u>	<u>6,137</u>
Net investment income	<u>1,242,479</u>	<u>548,372</u>
Realized and unrealized gain (loss) on investments (note 1)		
Net realized losses from investment transactions	(12,738)	(12,765)
Net change in unrealized appreciation (depreciation) of investments	<u>(738,828)</u>	<u>26,581</u>
Net gain (loss) on investments	<u>(751,566)</u>	<u>13,816</u>
Net increase in net assets resulting from operations	<u><u>\$490,913</u></u>	<u><u>\$562,188</u></u>

The accompanying notes are an integral part of these financial statements.

Investment Companies

Anytown Income Trust
First Intermediate Series
Statements of Changes in Net Assets

	<i>For the Year Ended August 31, 20X8</i>	<i>From March 23, 20X7 (Date of deposit) Through August 31, 20X7</i>
Increase (decrease) in net assets resulting from operations		
Net investment income	\$1,242,479	\$548,372
Net realized losses on investment transactions	(12,738)	(12,765)
Net change in unrealized appreciation (depreciation) of investments	(738,828)	26,581
Net increase in net assets resulting from operations	<u>490,913</u>	<u>562,188</u>
Distributions to unit holders (note 2)		
Accrued income as of the date of deposit	5,182	360,787
Net investment income	1,231,408	54,303
Proceeds from investment transactions	129,000	110,999
Total distributions	<u>1,365,590</u>	<u>526,089</u>
Increase (decrease) in net assets	(874,677)	36,099
Net assets		
Beginning of period	<u>15,258,606</u>	<u>15,222,507</u>
End of period	<u><u>\$14,383,929</u></u>	<u><u>\$15,258,606</u></u>

The accompanying notes are an integral part of these financial statements.

Anytown Income Trust
First Intermediate Series
Notes to Financial Statements

1. Summary of Significant Accounting Policies

The trust was organized on March 23, 20X7, under the laws of the Commonwealth of Massachusetts by a Trust Indenture and Agreement, and is registered under the Investment Company Act of 1940. The significant accounting policies of the trust include the following:

Basis of presentation. The financial statements are presented on the accrual basis of accounting.

Investment in marketable securities. Security transactions are recorded on a trade date basis. Investments owned are carried at fair value, which is the closing bid price on the last day of trading during the period, except that fair value on the date of deposit (March 23, 20X7) represents the cost to the trust based on offering prices for investments at that date. The difference between cost and fair value is reflected as unrealized appreciation (depreciation) of investments. Realized gains (losses) from securities transactions are determined for federal income tax and for financial reporting purposes on the identified cost basis.

Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the trust has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent observable inputs are not available, representing the trust's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The following table summarizes the inputs used to value the trust's assets and liabilities measured at fair value as of December 31, 20X8:³⁹

<u>Valuation Inputs</u>	<u>Investments in Securities</u>
Level 1	\$—
Level 2	13,878,888
Level 3	—
Total	\$13,878,888

Income taxes. No provision for federal income taxes has been made in the accompanying financial statements because the trust has elected and intends to continue to qualify for the tax treatment applicable to regulated investment companies under the Internal Revenue Code. Under existing law, if the trust so qualifies, it will not be subject to federal income tax on net investment income and capital gains distributed to unit holders. Distributions to unit holders of the trust's net investment income will be taxable as ordinary income to unit holders. Capital gains distributions will be taxable as capital gains to unit holders.

Investment expenses. The trust pays a fee for trustee services to XYZ Bank that is based on \$0.75 per \$1,000 of outstanding investment principal. In addition, a fixed fee of \$35 is paid to a service bureau for portfolio valuation at least weekly and more often at the discretion of the trustee.

³⁹ The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

Management has analyzed the trust's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for 20X7, or expected to be taken in the trust's 20X8 tax returns. The trust is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

2. Distributions of Income and Redemption of Units

The trust agreement requires that the net investment income and net realized capital gains (if any) of the trust, and also the proceeds from the sale, redemption, or maturity of securities (to the extent that the proceeds are not used to redeem units), be distributed to unit holders monthly.

The agreement also requires the trust to redeem units tendered for redemption, to the extent that such units are not purchased by the sponsor, at a price determined based on bid prices of the securities of the trust.

As of August 31, 20X8, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income		\$505,140
Unrealized depreciation of investments	(712,247)	
Accumulated net realized loss from investment transactions	<u>(25,503)</u>	
		<u><u>\$(232,610)</u></u>

3. Original Cost to Unit Holders

The original cost to investors⁴⁰ represents the aggregate initial offering price as of the date of deposit exclusive of accrued interest. The initial underwriting commission and investors' original cost of units, as shown on the statement of assets and liabilities, are based upon the assumption that the maximum sales commission was charged for each initial purchase of units.

4. Financial Highlights

	<u>8/31/X8</u>	<u>8/31/X7</u>
Per Share Operating Performance:		
Net asset value, beginning of period	<u>\$984.43</u>	<u>\$982.10</u>
Income from investment operations		
Net investment income	80.16	35.38
Net realized and unrealized gain (loss) on investment transactions	<u>(48.49)</u>	<u>0.89</u>
Total from investment operations	<u>31.67</u>	<u>36.27</u>
Less distributions	<u>(88.10)</u>	<u>(33.94)</u>
Net asset value, end of period	<u><u>\$928.00</u></u>	<u><u>\$984.43</u></u>
Total Return:	3.22%	3.51%
Ratios as a Percentage of Average Net Assets:		
Expenses	0.11%	0.09%
Net investment income	8.38%	8.21%

⁴⁰ This information is required by Regulation S-X and is not otherwise required by generally accepted accounting principles.

Illustrative Financial Statements for Variable Annuity Separate Accounts Registered as Unit Investment Trusts

ABC Variable Annuity Separate Account I of ABC Life Insurance Company Statement of Assets and Liabilities December 31, 20X8

	<u>Money Market</u>	<u>Equity Index</u>
Assets:		
ABC Investment Fund		
Investments at fair value:		
Money Market Portfolio, 57,231,590 shares (cost \$57,231,590)	\$57,231,590	\$—
Equity Index Portfolio, 23,961,595 shares (cost \$325,054,036)	—	350,797,752
Total assets	57,231,590	350,797,752
Liabilities:		
Payable to ABC Life Insurance Company	—	46,109
	<u>\$57,231,590</u>	<u>\$350,751,643</u>
Net assets:		
Accumulation units	\$57,231,590	\$349,750,644
Contracts in payout (annuitization) period	—	610,108
Retained in Separate Account I by ABC Life Insurance Company	—	390,891
Total net assets	<u>\$57,231,590</u>	<u>\$350,751,643</u>
Units outstanding	<u>4,136,795</u>	<u>19,674,291</u>
Unit value (accumulation)	<u>\$13.83</u>	<u>\$17.83</u>

The accompanying notes are an integral part of these financial statements.

**ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Statement of Operations
for the Year Ended December 31, 20X8**

	<u>Money Market</u>	<u>Equity Index</u>
Income:		
Dividends	\$4,602,399	\$6,450,878
Expenses:		
Mortality and expense risk	548,224	1,753,874
Administrative charges ⁴¹	182,741	584,624
Net Investment Income	<u>3,871,434</u>	<u>4,112,380</u>
Realized gains (losses) on investments		
Realized gain on sale of fund shares	—	4,050,008
Realized gain distributions	—	400,900
Realized gain	—	4,450,908
Change in unrealized appreciation during the year	—	20,728,111
Net increase in net assets from operations	<u><u>\$3,871,434</u></u>	<u><u>\$29,291,399</u></u>

The accompanying notes are an integral part of these financial statements.

⁴¹ If, under the annuity contract, the administrative charge is levied as a direct charge to the contract holders' accounts, rather than against the separate account, this would be included as an item separate from contract transactions in the statement of changes in net assets. In such cases, the exclusion of the direct charges from the expense ratios appearing in the financial highlights should be noted. If the charge is applied uniformly to all accounts based on the value of the contract holder's account, consideration should be given to indicating the effect of the charge on contract holder costs (expressed as a percentage of net assets) in the note.

**ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Statement of Changes in Net Assets
for the Years Ended December 31, 20X8 and 20X7**

	<i>Money Market</i>		<i>Equity Index</i>	
	<u>20X8</u>	<u>20X7</u>	<u>20X8</u>	<u>20X7</u>
Increase in net assets from operations:				
Net investment income	\$3,871,434	\$3,534,624	\$4,112,380	\$1,100,710
Realized gains	—	—	4,450,908	462,877
Unrealized appreciation during the year	<u>—</u>	<u>—</u>	<u>20,728,111</u>	<u>22,480,579</u>
Net increase in net assets from operations	<u>3,871,434</u>	<u>3,534,624</u>	<u>29,291,399</u>	<u>24,044,166</u>
Contract transactions:				
Payments received from contract owners	14,367,366	17,444,822	37,527,318	11,075,691
Transfers between subaccounts (including fixed account), net	(15,063,795)	(18,267,246)	155,175,016	59,808,957
Transfers for contract benefits and terminations	(11,945,485)	(10,017,075)	(4,238,812)	(1,639,933)
Contract maintenance charges	(40,061)	(51,366)	(210,505)	(65,202)
Adjustments to net assets allocated to contracts in payout period	<u>—</u>	<u>—</u>	<u>6,500</u>	<u>—</u>
Net increase (decrease) in net assets from contract transactions	<u>(12,681,975)</u>	<u>(10,890,865)</u>	<u>188,259,517</u>	<u>69,179,513</u>
Increase (decrease) in amounts retained in Variable Annuity Account I, net	<u>—</u>	<u>—</u>	<u>90,967</u>	<u>(122,904)</u>
Total increase (decrease) in net assets	(8,810,541)	(7,356,241)	217,641,883	93,100,775
Net assets at beginning of period	<u>66,042,131</u>	<u>73,398,372</u>	<u>133,109,760</u>	<u>40,008,985</u>
Net assets at end of period	<u><u>\$57,231,590</u></u>	<u><u>\$66,042,131</u></u>	<u><u>\$350,751,643</u></u>	<u><u>\$133,109,760</u></u>

The accompanying notes are an integral part of these financial statements.

**ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Notes To Financial Statements**

1. Organization

The ABC Variable Annuity Separate Account I (Separate Account I), a unit investment trust registered under the Investment Company Act of 1940 as amended, was established by ABC Life Insurance Company (ABC) on April 1, 20XX, and exists in accordance with the regulations of the New York Insurance Department. Separate Account I is a funding vehicle for individual variable annuity contracts. Separate Account I currently consists of 2 investment divisions, Money Market and Equity Index, each of which is treated as an individual separate account. Each investment division invests all of its investible assets in the corresponding portfolio of ABC Investment Fund, Inc.

Under applicable insurance law, the assets and liabilities of Separate Account I are clearly identified and distinguished from ABC's other assets and liabilities. The portion of Separate Account I's assets applicable to the variable annuity contracts is not chargeable with liabilities arising out of any other business ABC may conduct.

2. Significant Accounting Policies

Investments are made in the portfolios of the ABC Investment Fund and are valued at fair value based on the reported net asset values of such portfolios, which in turn value their investment securities at fair value. Transactions are recorded on a trade date basis. Dividend income and realized gain distributions are recorded on the ex-distribution date.

Realized gains and losses on the sales of investments are computed on the basis of the identified cost of the investment sold.

Net assets allocated to contracts in the payout period are computed according to the 1983a Individual Annuitant Mortality Table. The assumed investment return is 3.5 percent unless the annuitant elects otherwise, in which case the rate may vary from 3.5 percent to 7 percent, as regulated by the laws of the respective states. The mortality risk is fully borne by ABC and may result in additional amounts being transferred into the variable annuity account by ABC to cover greater longevity of annuitants than expected. Conversely, if amounts allocated exceed amounts required, transfers may be made to the insurance company.

The operations of Separate Account I are included in the federal income tax return of ABC, which is taxed as a life insurance company under the provisions of the Internal Revenue Code (IRC). Under the current provisions of the IRC, ABC does not expect to incur federal income taxes on the earnings of Separate Account I to the extent the earnings are credited under the contracts. Based on this, no charge is being made currently to the Separate Account I for federal income taxes. ABC will review periodically the status of this policy in the event of changes in the tax law. A charge may be made in future years for any federal income taxes that would be attributable to the contracts.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Actual results could differ from these estimates.

3. Investments

As described in note 2, Separate Account I measures the fair value of its investment in ABC Investment Fund on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that Separate Account I has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent observable inputs are not available, representing Separate Account I's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The following table summarizes the inputs used to value Separate Account I's assets measured at fair value as of December 31, 20X8:⁴²

<i>Valuation Inputs</i>	<i>Money Market</i>	<i>Equity Index</i>
Level 1	\$57,231,590	\$350,797,752
Level 2	—	—
Level 3	—	—
Total	\$57,231,590	\$350,797,752

The cost of purchases and proceeds from sales of investments for the year ended December 31, 20X8, were as follows:

	<i>Purchases</i>	<i>Sales</i>
Money Market Subaccount	\$13,855,466	\$22,666,007
Equity Index Subaccount	245,503,854	37,232,105

4. Expenses and Related Party Transactions

ABC deducts a daily charge from the net assets of Separate Account I equivalent to an effective annual rate of 0.25 percent for administrative expenses and 0.75 percent for the assumption of mortality and expense risks. ABC also deducts an annual maintenance charge of \$35 for each contract from the ABC Retirement Reserves Contract value. The maintenance charge, which is recorded as a redemption in the accompanying statement of changes in net assets, is waived on certain contracts.

Additionally, during the year ended December 31, 20X8, management fees were paid indirectly to ABC Management Company, an affiliate of ABC in its capacity as advisor to ABC Investment Fund. The fund's advisory agreement provides for a fee at the annual rate of 0.15 percent of the average net assets of the Money Market Fund and 0.45 percent of the average net assets of the Equity Index Fund.

[Other: Consider disclosures of other fees to affiliates not otherwise disclosed, such as sales load charges retained by the insurance company].

5. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 20X8 and 20X7 were as follows:

	<i>Money Market</i>		<i>Equity Index</i>	
	<i>20X8</i>	<i>20X7</i>	<i>20X8</i>	<i>20X7</i>
Units Issued	1,075,828	1,346,281	11,530,377	5,387,478
Units Redeemed	(1,967,393)	(2,191,438)	(268,220)	(115,368)
Net Increase (Decrease)	<u>(891,565)</u>	<u>(845,157)</u>	<u>11,262,157</u>	<u>5,272,110</u>

⁴² The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

6. Unit Values

A summary of unit values and units outstanding for variable annuity contracts, net investment income ratios, and the expense ratios, excluding expenses of the underlying funds, for each of the 5 years in the period ended December 31, 20X8, follows.

- a. The following format should be presented if the insurance enterprise chooses to disclose each contract expense level that results in a distinct net unit value and for which units were issued or outstanding during each of the 5 years ended December 31, 20X8.

	Net Assets		Investment Income Ratio ⁴³	Expense Ratio ⁴⁴	Total Return ⁴⁵
Units	Unit Value	(000s)			
Money Market Investment Division					
December 31					
20X8					
4,136,795	\$13.83	\$57,232	5.25%	1.00%	5.30%
20X7					
5,028,360	13.13	66,042	5.02	1.00	5.07
20X6					
5,873,517	12.50	73,398	8.46	1.00	8.54
20X5					
2,058,353	11.52	23,705	8.23	1.00	8.31
20X4					
967,550	10.63	10,291	6.24	1.00	6.30
7/1/X3					
500,000	10.00	5,000			

⁴³ These amounts represent the dividends, excluding distributions of capital gains, received by the subaccount from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in the unit values or the redemption of units. The recognition of investment income by the subaccount is affected by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.

⁴⁴ These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges, for each period indicated. These ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

⁴⁵ These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. Investment options with a date notation indicate the effective date of that investment option in the variable account. The total return is calculated for each period indicated or from the effective date through the end of the reporting period.

Units	Net Assets		Investment Income Ratio ⁴⁶	Expense Ratio ⁴⁷	Total Return ⁴⁸
	Unit Value	(000s)			
Equity Index Division					
December 31					
20X8					
19,674,291	\$17.83	\$350,752	2.23%	1.00%	12.68%
20X7					
8,412,134	15.82	133,110	2.35	1.00	24.16
20X6					
3,140,024	12.74	40,009	3.12	1.00	(9.50)
20X5					
3,879,972	14.08	54,630	3.24	1.00	11.94
20X4					
2,162,080	12.58	27,195	3.98	1.00	6.20

- b. The following format should be presented if the insurance enterprise chooses to present the range of the lowest to highest level of expense ratio and the related total return and unit fair values during each of the 5 years ended December 31, 20X8. Certain of the information is presented as a range of minimum to maximum values, based on the product grouping representing the minimum and maximum expense ratio amounts.

	At December 31		For the Year Ended December 31			
	Units	Unit Fair Value	Net	Investment	Expense Ratio	Total Return
	(000s)	Lowest to Highest	Assets Assets (000s)	Income Ratio ⁴⁹	Lowest to Highest ⁵⁰	Lowest to Highest ⁵¹
Money Market Investment Division						
20X8	4,137	\$10.51–\$14.06	\$57,232	5.25%	1.00%–2.65%	4.10%–5.30%
20X7	5,028	10.00–13.20	66,042	5.02	1.00–2.60	4.01–5.07
20X6	5,874	9.37–13.21	73,398	8.46	1.00–2.60	7.45–8.54
20X5	2,058	8.72–12.23	23,705	8.23	1.00–2.55	5.65–8.31
20X4	968	8.25–12.50	10,291	6.24	1.00–2.45	5.25–6.30
Equity Index Division						
20X8	19,674	\$10.51–\$19.06	\$350,752	2.23%	1.00%–2.65%	5.10%–12.18%
20X7	8,412	10.00–20.20	133,110	2.35	1.00–2.60	6.80–24.16
20X6	3,140	9.37–14.21	40,009	3.12	1.00–2.60	(9.50)–9.10
20X5	3,880	8.72–15.23	54,630	3.24	1.00–2.55	5.65–11.94
20X4	2,162	8.25–13.50	27,195	3.98	1.00–2.45	5.25–6.20

⁴⁶ See footnote 43.

⁴⁷ See footnote 44.

⁴⁸ See footnote 45.

⁴⁹ See footnote 43.

⁵⁰ See footnote 44.

⁵¹ These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the redemption of unit values. These ratios do not include any expenses assessed through the redemption of units. Investment options with a date notation indicate the effective date of that investment option in the variable account. The total return is calculated for each period indicated or from the effective date through the end of the reporting period. As the total return is presented as a range of minimum to maximum values, based on the product grouping representing the minimum and maximum expense ratio amounts, some individual contract total returns are not within the ranges presented.

- c. An insurance enterprise may choose to present all expenses that are charged by the separate account in either a table or narrative format. The disclosure should list all fees that are charged by the separate account and a description of those fees, including whether they are assessed as direct reductions in unit values or through the redemption of units for all policies contained within the separate account. For this example, expenses disclosed are based on the ranges of all products within the separate account; the expenses may also be listed in more detail (for example, individual charges broken out by products within the separate account) in either table or narrative format.

ABC Variable Annuity Separate Account I

Mortality and Expense Charge

Basic charges are assessed through reduction of unit values.

1.00%–1.70%

Death Benefit Options

The options are assessed through reduction in unit values:

- Ratchet Option—Equal to the highest account balance among prior specified anniversary dates adjusted for deposits less partial withdrawals since the specified anniversary date 0.15%–0.20%
- Roll Up Option—Equal to the total of deposits made to the contract less an adjustment for partial withdrawals, accumulated at a specified interest rate 0.20%–0.40%

Guaranteed Minimum Income Benefits

These benefits are assessed through reduction in unit values and provide that the periodic annuity benefits will:

- Not fall below a contractually specified level. 0.20%–0.55%
- Be based on the higher of actual account values at the date the policy owner elects to annuitize or a contractually specified amount. 0.30%–0.40%

Administrative Charge

This charge is assessed through the redemption of units.

Years 1–5: \$30

Years 6+: \$10

Alternatively, the expense ratio represents the annualized contract expenses of ABC Variable Annuity Separate Account I for the period indicated and includes only those expenses that are charged through a reduction of the unit value. Included in this category are mortality and expense charges, and the cost of any riders the policy holder has elected. These fees range between 1.00 percent and 2.65 percent, depending on the product and options selected. Expenses of the underlying fund portfolios and charges made directly to contract owner accounts through the redemption of units are excluded. For this separate account, charges made through the redemption of units ranged from \$10 to \$30 per policy annually.

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